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FORBES
April 13, 1981

FIFTY CENTS

Forbes

HE WORLD AUTO BUSINESS

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Forbes

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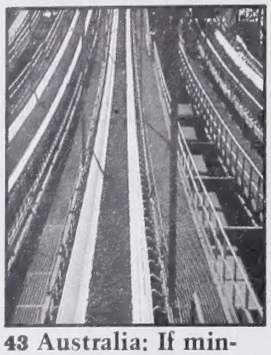

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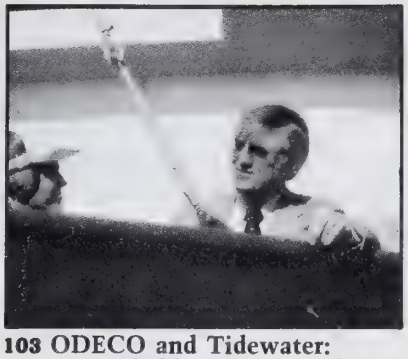

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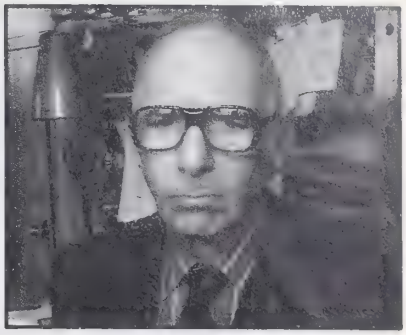

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The way of the '80s calls for

INTE

The traditional family—wage-earning dad, stay-at-home mom, two kids—today accounts for only seven percent of all U.S. households.

Millions upon millions of men now actively participate in running the home. On top of that, almost one-and-a-half million dads raise children alone.

TV GUID

MARKETING.

The number of women putting off marriage for an education or career has risen 70 percent in the last decade. Men aren't rushing up the aisle, either. Over 17 million people now live alone.

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That's because the people who interest you are interested in television and the way TV Guide writes about it—from concerned parents responding to our articles on tv violence to affluent young people checking our reports on the latest home electronic technology to working couples who rely on our programming features to make their viewing time more rewarding.

All in all, TV Guide delivers over 42 million involved adult readers. With the largest in-home readership of any magazine. And the speed to market that you once expected only from broadcast.

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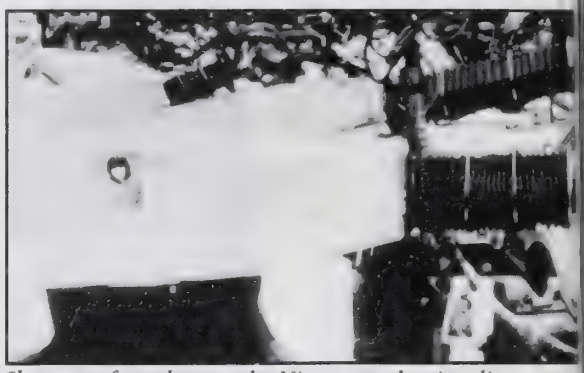
Side Lines

The grass is greener . . .

Not so long ago our offbeat columnist, psychologist-market analyst Srully Blotnick, wrote a column wherein he told how most people tend to overestimate their own problems and underestimate those of others (Forbes, *Feb. 2, 1981*). He took pairs of people, seemingly identical in business and circumstance and asked each what he or she thought of the other. In every case, the respondents replied: "Boy, do I envy him [or her] that easy life." The people he studied only knew their own anguish; they didn't sense that of others. Apparently the same is true of countries and cultures. Jim Cook, our veteran Executive Editor, recently spent weeks talking to Japanese automen, visiting their plants and analyzing their strategy. His finding? That while Americans tend to think our auto industry is devastated and the Japanese auto industry is triumphant, the Japanese have quite a diff view. They see poor-little-us-aga great-big-you. They are, in short, n as apprehensive in their automotive cess as we are in our severe autom setback.

Says Cook: "They may have reas be nervous. Their strengths are obv but so are their limitations." Even robots *(see picture)* are U.S.-made. whose grass is *really* greener? The ar starts on page 119.



Close-up of a robot on the Nissan production line

Ebbs, flows & eddies

For easier reading we have revamped our visual presentation of the Forbes/Wilshire 5000 Review. In presenting this index—which measures the entire universe of stocks, not just a selected group—we are helping the reader go beyond daily surface reporting on the market and get a feel for what's *really* going on. Assistant Ma ing Editor Paul Sturm writes the text a Wilshire's computer in Santa Mor Calif. describes for ours in New York ebbs, flows and eddies among 5, stocks over the most recent fortnight. page 187.

Down under

When Steve Forbes and I interviewed Australian Prime Minister Malcolm Fraser in Canberra recently, none of us was at his best. We had been traveling since 6 a.m., and now it was almost midnight. I was suffering a severe head cold, Steve was suffering the loss of most of his baggage and Fraser was suffering fatigue from a long day of flying and politicking. Nevertheless, we came to life and listened with great interest as this rancher-turned-politician told how he cooled Australia's overheated economy and helped set the stage for a mining boom that's going to give Australia healthy economic growth this year—one of the few industrial nations in that position. Why did we visit Australia? We wanted to find out whether American companies were smart to pour billions of dollars into this small (in population) country, and we wanted to learn more about an economy that had been pulled back from crushing federal deficits and near-explosive inflation by a conservative victory at the polls. Our conclusions start on page 43.

Our excellent contacts in Austr owe much to our long acquaintance with James D. Wolfensohn, execu partner in New York's Salomon Br ers. Jim's a big wheel in Wall Street an ornament to his profession: A cla cal music buff, he is, on the side, ch man of the board of Carnegie Hall; was reportedly among the front run to succeed Robert McNamara at World Bank late last year and he's pla a big part in trying to keep Chry afloat. But Jim's a Sydney boy, born bred, and if his life is in New York th days, part of his heart is still in Austra Almost every personality we met th asked after him and spoke admiringl him. Jim Wolfensohn is a credit to profession as well as to his native lan

James W. Michaels
Editor

STEADY AHEAD

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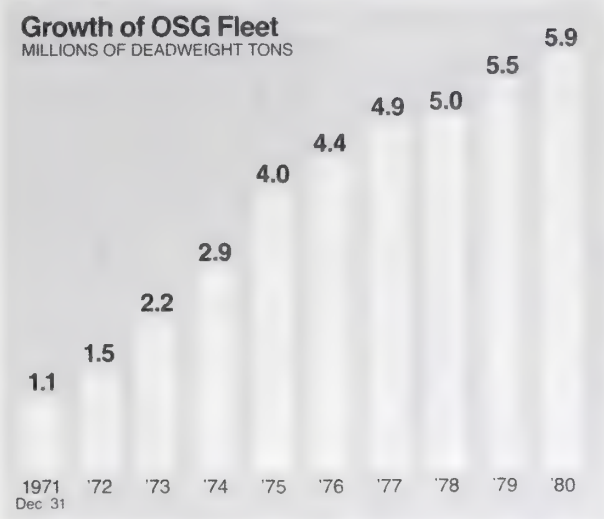
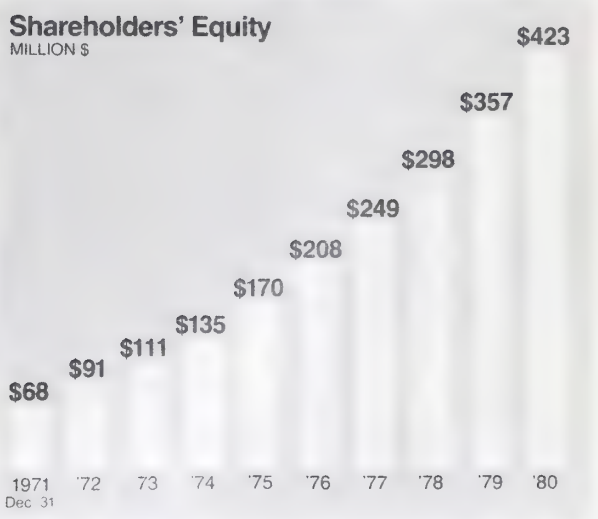
We would be pleased to send you a copy of our 1980 Annual Report containing a description of our industry and detailing the results of our operations.





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Edited By John A. Conway

Who gets the windfall?

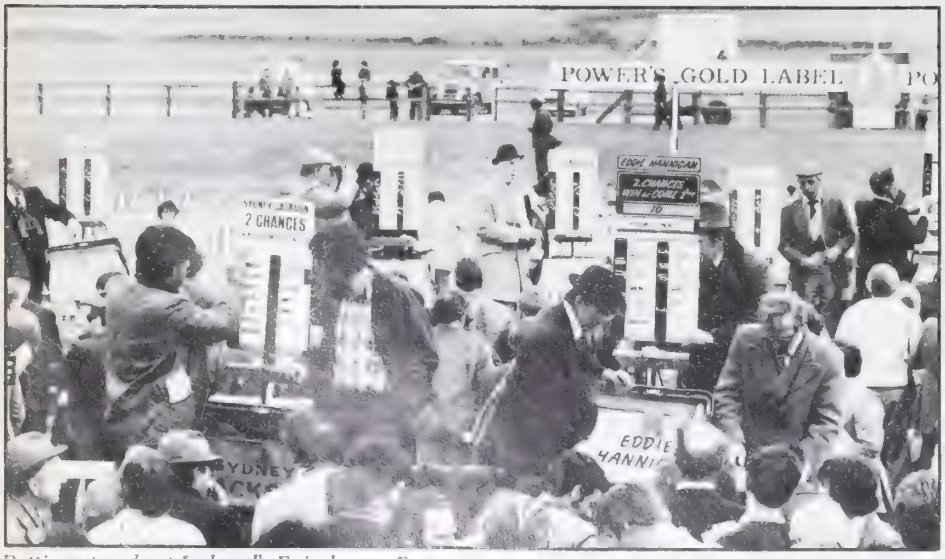
A pool of more than $2 billion will be lying in Uncle Sam's vaults this year waiting for crude-oil producers to come and get it—which will be no easy task. The money is a by-product of the Windfall Profit Tax Act of 1980, which requires buyers of crude to withhold sums to cover taxes on extra profits resulting from decontrol of oil prices. (President Reagan's total scrapping of controls should make the bonanza even bigger.) The complexity of the rules used to figure a refund, however, could discourage many producers from even trying, according to James Weimer, chairman of Price Waterhouse's petroleum service group in Dallas. In addition, Weimer says, "because these rules are so new, most companies have not had time to develop computer programs to take full advantage of refund possibilities." To help out, Price Waterhouse has devised a handy-dandy piece of software it calls WPT/80. This is designed to help meet reporting requirements and also to take maximum advantage of refunds due from overpayment of the tax. This last can spell real money. Speaking from his own experience with clients, Weimer cites one case where "it was discovered that a relatively small company had overpaid the tax by more than $900,000." And, he adds: "I believe this won't be an unusual case at all."

The four-legged hucksters

Basil Brindley, a Dublin horseman and ad agency chairman, has posed a potential problem for the U.S. Jockey Club, guardian and final arbiter of American Thoroughbred horseflesh. Brindley has just leased six of his Killeen Castle Stables horses as pure-blooded billboards. Two fillies have been let to General Motors, which has named them Opel Rekord and Opel Kadett; one to an Irish distributor who has dubbed the animal Toshiba Technology; another to Dublin hotelier Tony Heaphy that will race as Listowel Arms. The remaining two will run under Brindley's own colors, as Advertise and Public Relations. For their money (about $12,000 a year), the lessors will see their steeds, complete with brand-name blankets, run in 10 of the 300-odd races Ireland stages yearly on its 28 racecourses. Naming Thoroughbreds for promotion is strictly off-the-turf in this country, but a few years ago England's Jockey Club and Ireland's Turf Club, which govern such matters there, relaxed their rules. Brindley is not first (a horse named Schweppervescence ran in England a year or two ago), but no one has tried it on his scale. The Jockey Club's problem will be what to do if one of the brand-emblazoned animals should show up at a U.S. starting gate. "We'd have to change the horse's name," says the Jockey Club's Alfred Garcia. Before that happens, he plans to check with his opposite numbers across the Atlantic and to bring up the subject at a meeting of international racing authorities next month.

Minimizing the minimum

Raising the minimum wage, a perennial labor goal, can hurt more than it helps, says Walter Wessels, an economics professor at North Carolina State. In a report just published by the American Enterprise Institute, the conservative think tank, he points out that employers often react by trimming fringe benefits, employee training and working conditions. In some cases, the professor says, a boost in the minimum can kill year-end nuses, cut vacations, profit-sharing, s discounts for retail workers and, in s cases, coffee breaks. One area wl such countereconomies can be part larly severe, Wessels notes, is in the food industry, where average emplc turnover is about 300% a year.



Betting stands at Ireland's Fairyhouse Races
Ahorse or afoot, there'll always be an adman.

Friends and enemies

Broadcasters, under pressure from new conservative groups, the Moral jority and the Coalition for Better have picked up an unexpected ally. Pe Charren, president of Action for C dren's Television, told a meeting of program executives in New York ACT was launching a grassroots natic campaign to drum up petitions aga what she termed the "censorship tics" of the new groups. President Cl ren has been one of commercial T loudest and severest critics since A was formed in 1968 and her name se most program directors and adverti running for cover. Nonetheless, she t the assembled broadcasters, ACT st foursquare against the efforts of the M al Majority and its allies. Their plar put pressure on sponsors, in her view "a censorship crusade that threatens free exchange of ideas in a free socie She also emphasized, however, that A would continue to fight for programm for children that was "designed for s cific age groups." Then, in words t must have sent a chill through her bro caster audience, she added that A wanted those programs "presented wi out commercials."

High-level pain

A name on the door means more tha Bigelow on the floor. It also means he aches. An informal survey of ad ager presidents and corporate chief exe tives by Sandoz Pharmaceuticals fou that 90% of the CEOs and 80% of admen suffered headaches, compa with an estimated 70% of lesser mort The New Jersey manufacturer of p relievers also checked doctors and p chiatrists and while Dr. Craig Burrell vice president, concedes that the surv might not be statistically valid, he sai does provide "a fairly accurate indicati of what is occurring in four impor groups in our population." (Sandoz c vassed 500 in each category and go more than 25% response overa Among the CEOs, many said they g headaches two to four times a we eight out of ten of the sufferers to some kind of over-the-counter reme Many of the ad agency chiefs saw a rect connection between their jobs a

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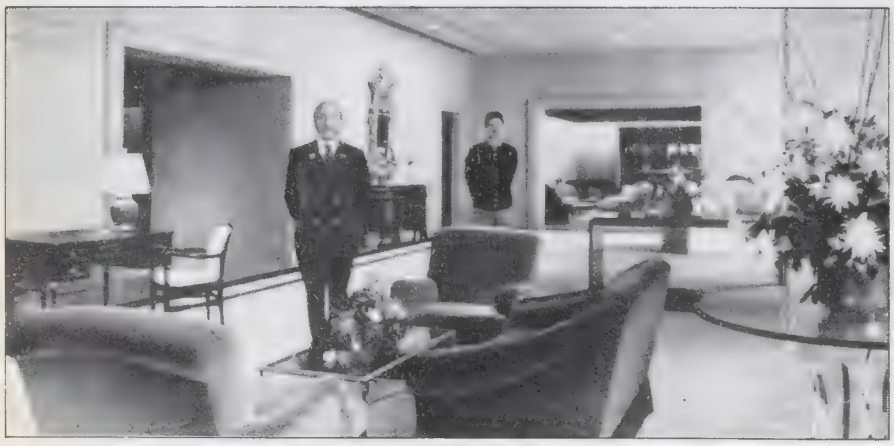

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Then step outside, and you're in the spectacular Plaza of the Americas atrium. Featuring restaurants, exclusive shops, a health club and a beautiful ice skating pond.

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Hotels

their pains. Doctors also scored a hi 83% on the headache meter, and wh very few bothered to see a fellow phy cian, 40% took prescription drugs relief. Psychiatrists fared better th their medical colleagues. Their score the survey was 67% and a third said th used no medicine at all, either beca they didn't get headaches or beca they preferred remedies like relaxati and self-analysis. Physician, heal thys

One-letter man

When the shareholders of the Rowe Pr New Horizons Fund assemble in Ba more in a few weeks, they will fi something different on their agen Along with the routine election of dir tors, approval of auditors, etc., this yea annual meeting will be asked for a v "to amend the Fund's Articles of Inc poration to add the letter 'T.' to t Fund's name." The idea, according to

T. Rowe Price

To the letter.

Kirkbride Miller, principal executive of cer of T. Rowe Price Associates, t fund's investment adviser, is to have the Price funds carry the full name their founding father, who left the ent prise more than 15 years ago (and w set up some of the T-less entities hi self). Miller's advertising experts ha recommended that all the funds bear t same monicker (only one, the Grow Fund, now does) and they thought th the "T." would bring them added rec nition value. The proposal to the stoc holders was made without any consult tion with the original Mr. Price (who 83), and he apparently couldn't care le "I think they're crazy," he says. T "T.," incidentally, is for Thomas.

"A RYDER TRUCK LEASE SAVES US $250,000 A YEAR. AND WE'RE MORE LIQUID THAN EVER."

On December 13 Ryder received an unsolicited letter from Kurfees Coatings, Inc. out of Louisville, Ky.:

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D B Kurfees

When our customers can write ads for us, we must be doing something right. Like maintaining trucks better than anybody in the business. With a coast-to-coast network of company-owned truck service centers to handle repairs, 24 hours a day, 7 days a week. With a large inventory of substitute trucks. With fuel provided by Ryder at a low rate with no retail markup. And with everything included in the lease rate so there are no expensive surprises. *Ryder rents and leases trucks in the U.S. and Canada. In the U.S. call toll-free 800-327-1575. Or mail coupon now.*

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Ryder has a way you can arrange for a 90-day trial truck lease. If you take advantage of this offer, and you're not completely happy with Ryder service, you just pay for the time you used the truck and you walk away clean.

Ryder, I'm not signing up for anything yet, but I certainly want to know more.

Name/Title

Company Name

Address

City/State/Zip

Phone

RYDER

Mail to: Ryder Truck Rental, Inc.
Harmon Hoffmann, President
P.O. Box 520816
Miami, Florida 33152

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Who'll keep the books?

When New York, biggest of the 40,000 U.S. cities, suddenly found itself on the edge of bankruptcy in 1975, a fresh clamor arose over the accounting methods used—or misused—by municipal bookkeepers. Last year, FORBES *(Mar. 3, 1980)* asked: "Why not require states and municipalities to convert their books to corporate generally accepted accounting principles like those General Motors and other companies use?"

The problem then and now is not just what rules should govern government accounts but who should write them. Even without New York, something obviously was amiss. When Coopers & Lybrand, for instance, checked 27 cities that had outside audits, it found only 8 with what the CPAs call a "clean ticket" and 60 departures from generally accepted accounting principles among the others. Standard & Poor's bond-rating service put out a policy statement last May, warning that it wanted timely, audited financial statements and that their absence could hurt a government's rating.

The past 12 months have seen a new, major effort to create a separate board to set financial standards for governments, something many public accountants want and private ones do not. The private sector's Financial Accounting Standards Board, long a vehement opponent, gave in last March and agreed to take part in creating such a body, and in February an exposure draft was broadca a presumably waiting world. Public l ings will be held in May, and Ro Points of the U.S. General Accoun Office and the GASB organizing c mittee expects that by year's end new board will be set up with a million budget—half from the pri sector, the rest from various public counting groups. (No one, public or vate, wants federal funds and its at dant strings, and Points thinks GASB won't need appropriations f any government.)

Points could be a voice crying in wilderness. The FASB did help with new proposal, but on the day the e sure draft was published, its Stam Conn. headquarters issued a four-p commentary reiterating its reservat and bristling with warnings of conf ing standards, second-guessing, co sion and "redundant, duplicative, co and potentially less effective efforts."

The fate of the GASB, however, more likely be decided not by rhet but by money. Paul Pacter of the FA who is also one of the GASB organiz says he can't see the private sector p ing up anything like the half of the $ million that Points is banking on, though he thinks that private CPAs probably ante up some money. On public side, organizations like the M nicipal Financial Officers Associat the state financial officers' group, League of Cities and the National Go

New York's Mayor Ed Koch struts his stuff
Why is this man dancing?

YOU CAN'T CONTROL LABOR COSTS. YOU CAN'T CONTROL MATERIAL COSTS. YOU CAN'T CONTROL FUEL COSTS. BUT YOU CAN CONTROL YOUR BOTTOM LINE.

THE DATA GENERAL ECLIPSE® SYSTEM: IT DELIVERS WHAT OTHER COMPUTER SYSTEMS MERELY PROMISE.

These days, one doesn't have to sit through many board meeting postmortems to know that Alka-Seltzer™ and not champagne is the order of the day.

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But, if you're looking for the leverage to positively affect your bottom line in this fiscal year, all is certainly not lost.

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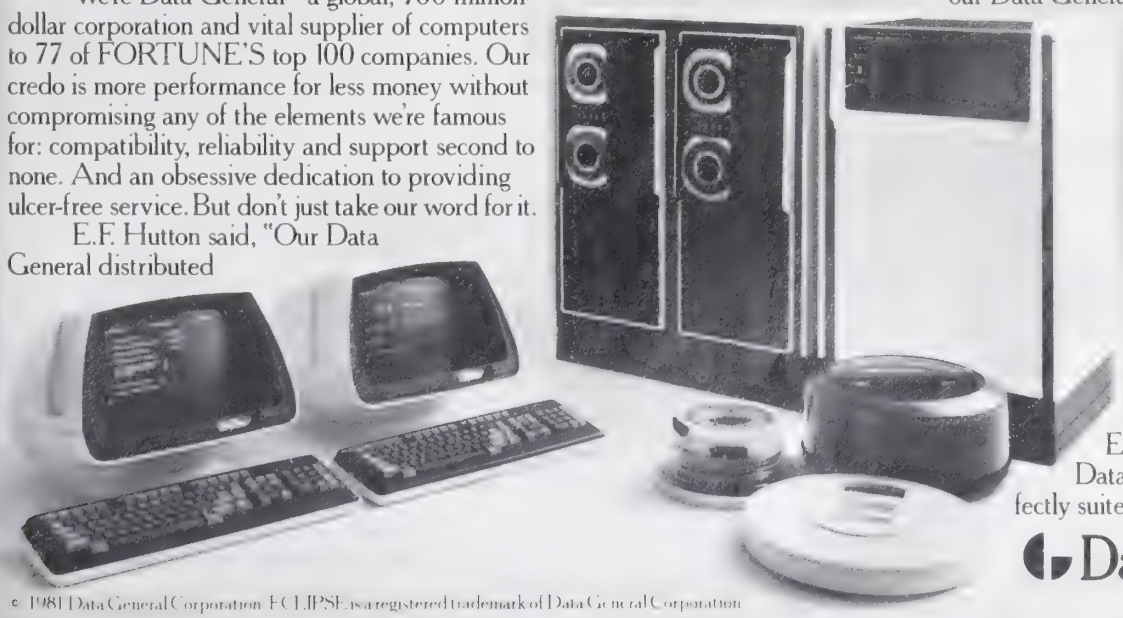
Warner Communications said, "Our savings since the installation of the Data General system is well over $2,500,000."

Stanley Hardware—A Division of The Stanley Works: "Data General has vastly improved our order processing efficiency and control."

Saab-Scania of America: "The system uptime is virtually 100%. Instantaneously we can search, find and allocate emergency parts orders from any Saab location in the U.S., making our Data General system the key component of our customer service network." And the accolades continue.



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How Western's diversified services benefit firms with diverse operations

"I used to think you only called temporary help services for secretaries and receptionists."

A large company with diverse operations often requires a variety of temporary personnel to handle special projects and substitute for absent employees. For such firms, Western's wide spectrum of temporary help services can be a valuable resource. Ask Jim Murphy, merchandiser and account executive for the Coca-Cola Bottling Co. of California, Oakland branch.

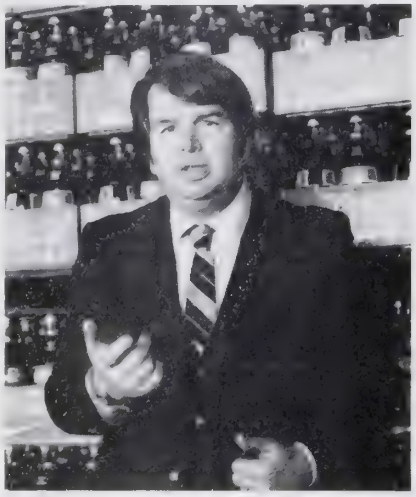
"Western's been able to fill every job order we've given them so far," says Murphy. *"And our supervisors are impressed that they've been able to get qualified help in as little as an hour and a half. We don't have to spend our time interviewing. We just pick up the phone and know we'll get someone who can handle the job."*

Over the years Murphy and the plant's supervisors have found Western to be a convenient personnel bank they can rely on for clerks and secretaries, marketing people, security guards, quality control engineers, warehouse helpers and accountants — to name a few.

"For example," Murphy recalls, *"before we contacted Western we were having problems recruiting dependable people for our coupon promotions. I was really beginning to feel frustrated . . . store managers were complaining that our people weren't showing up . . . the whole thing just wasn't working out.*

"Then one of our managers heard about Western's marketing people. We decided to try them as coupon distributors. And you know, their professionalism helped make the promotion a success. It kept the store managers happy, too."

Working with one multifaceted temporary help service rather than with several



Jim Murphy, Account Executive for Coca-Cola Bottling Co., Oakland, Ca.

has advantages other than convenience. As Murphy points out, *"The continuity means that our company's requirements are better understood. With Western we feel our needs are known without even putting them into words."*

It's the personnel know-how of Western's managers that makes the difference. They recruit actively and innovatively, test carefully, interview thoroughly and assign selectively to provide you with a skills supermarket you can depend on. No matter what kind of temporary help you want — clerical, marketing, medical, technical, industrial or security — you can feel confident you'll get the best from Western. Call today. Ask for our free brochure "30 Ways to Use Temporary Help from Western." We're in the white pages. 200 offices worldwide.

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Divisions: Clerical (Western Girl) Marketing Medical Technical Industrial Sentry Santa Photo

Follow-Through

nors Association have no money for s purposes and have said so. As for gov ment appropriations, prying money of 50 states and 40,000 cities seem political pipe dream. (This could add tent fuel to the idea of letting the FA with its $8 million budget, set ev body's standards.)

Anthony J. Mottola, national chair of Coopers & Lybrand's municipal counting practice, personally le toward the FASB view. (The firm itse in the process of charting a formal sta "During the past five years," he s "there have been substantial stride the quality of standards and in com ance with them, but we still need a sir standard-setter." The GASB could p that role, but Mottola is not sure it is only or the best solution. For one thing notes, like the FASB's Pacter, that no has made a commitment toward that p posed $2.5 million budget. Another fac is what he calls the "turf problem." new board, for example, will need a c fully defined mission to handle poten conflicts between its standards and FASB's. Then there are the govern mayors and other officials, or what M tola delicately terms "the political in ests." These, he points out, tend to proach the accounting table primarily preparers of the books and have less c cern with the needs of the businessn who will use their numbers.

Meanwhile, what about New Yo whose troubles helped cause all the fu This year, Mayor Edward Koch has ac ally presented a balanced budget what's more, the numbers are accep as real. "They're certified," adds Cor troller Harrison (Jay) Goldin, a refere to the fact that, since 1976, Peat, M wick, Mitchell has audited the ci books and they are kept according to sacred generally accepted account principles. For the first time since 19 Standard & Poor's has pinned an inve ment-grade label on the city's bonds, Koch and Goldin are triumphantly pl ging a $75 million issue. Moody's, other big rating house, has damper things a little by insisting that New Yo paper, despite the progress and the r numbers, is still not a "desirable inve ment." ("Moody's is moody," Koch's response.)

The fate of the Government Accou ing Standards Board could be settled the no-double-standard arguments t will fill the air in May's public hearin Or GASB could wither for lack of sta up money, or because of a feeling t perhaps the worst troubles of munici bookkeeping are over. But at least t accounting profession, government a private, is moving to do something.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

New Issue / March 18, 1981

$600,000,000

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Readers Say

Telltale looks

SIR: Re "How to know you're growing older" *(Fact and Comment, Feb. 16)*. A patient recently told me. A few years ago, the first books he looked at in a bookstore were sex manuals. Now the first ones he looks at are on hemorrhoids.
—Steven Lehrer, M.D.
New York, N.Y.

We're going to thrive

SIR: Re "Trouble in the Heartland" *(Mar. 16)*. I refer you to a noted journalist of another age:

> "There are Croakers in every Country always boding its Ruin. Such a one then lived in [my city], a Person of Note. This Gentleman asked me if I was the young Man who had lately opened a new Printing House: Being answer'd in the Affirmative; he said he was sorry for me, because the Expence would be lost; for [the city] was a sinking Place. And he gave me such a Detail of Misfortunes, now existing or that were soon to exist, that he left me half-melancholy."

The writer was Benjamin Franklin, the city Philadelphia. We are too prone these days to get caught up in the percentage growth game, forgetting about underlying size, strength and quality.

We out here in the Heartland are going to survive. And not only survive, we're going to thrive.

I hope to have the pleasure of seeing the croakers about mid-America come back in future decades looking for our coal, our water and our markets.
—M. Brock Weir
Chairman,
Ameritrust Corp.
Cleveland, Ohio

SIR: You include Pittsburgh in this group of ailing cities. But Pittsburgh is undergoing a very dramatic change. Some $4.5 billion worth of private investment will occur in Pittsburgh between now and 1986. The Pittsburgh unemployment rate is currently at 7.2%, which is beneath the State of Pennsylvania, as well as the U.S. average. Although the population has declined against the 1970 figures, the work force has grown from 1.1 million to 1.2 million.
—Jay D. Aldridge
Executive Director,
Penn's Southwest Assn.
Pittsburgh, Penna.

SIR: Our state was the only one that lost population since 1970, but your Mar. 16 cover has done away with us altogether. Are we to be called Connecticut Isl
We'd prefer Rhodecticut!
—Peter C. Cotton
East Greenwich, R.I.

Environmentalist abuse

SIR: Re your remarks concerning Ronald Reagan National Forest cart *(Mar. 16)*, I hate to see the good w "conservationist" used in reference t "environmentalist."

A conservationist is interested in vention of soil erosion, forest man ment, protection of wildlife, etc., to end that the soil will produce more cr the forests more and better lumber that the wildlife will not be destroye exploitation.

An environmentalist merely wa land and their resources placed in a d freeze—preferably forever. God g man the earth to use, not abuse. Nor is abuse.
—Paul E. Raps
Hamilton, Ohio

A draft would do U.S. goo

SIR: You have called several times f resumption of the draft, but I believe I am more productive learning the and outs of Wall Street at the pres time than I would be in the armed vices. If our national security were be threatened I would gladly enlist, b truly believe that I am doing this cour more good by learning the market.
—Kacey Konars
Columbus, Ohio

You'd learn much in a year's ser stint—and our national economy as wel security is threatened because we don't h a draft. —MSF

Old idea

SIR: Your Mar. 16 *Fact and Comment* s gests using West European highways runways for aircraft.

Did the man who wrote that rea think it through?
—Roy W. Nettleton
Salamanca, N.Y.

SIR: This idea is already proven. In Wo War II, the Germans used their magn cent autobahns for many of their squ rons near front lines. The center gr and bushes section was paved, pain green and provided with pipeholes which were temporarily inserted art cial bushes—for camouflage. In wooded areas on each side of the au

hn were cut out revetments in which e aircraft were run in for concealment. aw hundreds of these.
eRoy D. Kiley
Myers, Fla.

R: If you travel by auto in East Ger- any, between Munich and Berlin, ou will come upon straight, level retches of autobahn where the shoul- rs are wide and level with the auto- hn. Some of these roadways even ive revetments on the sides to ac- mmodate any eventualities.

Many sections of Western Europe uld be prepared in a like manner at inimal cost and maintenance.
Pat McCullough
n Jose, Calif

Can you beer it?

R: Reader Dick Simson of Control Data orp. *(Readers Say, Mar. 16)* states that eir proposed computer would perform billion floating-point calculations per cond (much faster than a megaflop). I esume that his will be known as a illiflop."
D.E. Shadd
nner Springs, Kans

Still shining

R: Unquestionably restructuring has curred in the solar industry ("Solar lipse," *Mar. 16*). However, there has t been a large number of significant partures from the industry.

Industry sales, adjusted for inflation, ive not been flat. The solar industry is obably one of only a few in which ices for manufactured products have clined over the last several years. Ac- rdingly, dollar volume has not in- eased at a high rate, but unit sales have creased appreciably.
Brian D. Pardo
esident,
lar King
ico, Tex.

OPEC threat

R: There is no doubt that in OPEC we e facing a threat to Western civiliza- on ("OPEC's intended strategy," *Jan*). It is time that government, the me- a and various institutions educate the blic on the nature of the threat.
Abraham H. Foxman
oc. National Director,
ti-Defamation League of B'nai B'rith
w York, N.Y.

Order Taking Without Order Takers. Customer Service Without Customer Service Representatives.

Hook your phone lines into one of our T-COMM® systems, and your local managers can report on sales without talking to an operator. Your field sales force can call in orders without order takers. Your customers can place and find out about orders, without talking to a customer service representative.

And, they can do it all without sophisticated and expensive computer terminals.

Periphonics proven and tested communications technology, combined with our ability to make computers talk, lets you communicate with people around the country, without having a staff of operators "standing by". The caller can use any push-button telephone, and our system can be programmed to handle just about any series of transactions you can imagine. We can transfer to an agent for more detailed or difficult calls, and even deliver a pre-set sales message.

Periphonics T-COMM systems are in use today from Toledo to Tokyo. They're taking auto parts orders, transfering bank deposits, and reporting on local sales volume. Periphonics built-in quality makes them dependable. Periphonics national staff of trained service engineers keeps them working. And, Periphonics no-nonsense approach to that mythical world of "software" makes them easily adaptable to just about any computer system you might have in-place today.

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The bidding began, then escalated. And then came a gasp from the audience. One 1936 Mercedes-Benz Type 500K Roadster—sold, for four hundred thousand dollars. The most money ever known to have been paid for any passenger car.

Its new owner received one of only 354 Type 500K vehicles ever built, as pristine in appearance as the day it left the Mercedes-Benz factory 43 years before.

And the automobile world witnessed perhaps the most spectacular demonstration ever offered of a singular automotive truth: no other cars have been shown to more consistently endure in value than the cars of Mercedes-Benz.

Model after model and year after year, from extraordinary rarities like that 500K to the gasoline and diesel sedans of the modern era—Mercedes-Benz automobiles have been distinguished both by a majestically slow rate of depreciation and a reassuringly large percentage of original value retained.

Of course, future resale value of Mercedes-Benz or any cars cannot be precisely forecast today. The future is unpredictable. And not even Mercedes-Benz has a crystal ball.

But lacking such magical powers, Mercedes-Benz does have the next best thing: that record of past resale value second to none.

Engineered like no other car in the world

The above photos are a reenactment of the actual auction

© 1981 Mercedes-Benz N.A., Inc., Montvale, N.J.

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

GUNS AND *NOT* BUTTER

t was significant as well as symbolic that on the same day Reagan Administration's increased military spending was posed, a Senate panel overwhelmingly approved a freeze on unneeded automatic big jumps in dairy price subsidy.

Guns we need; more butter we don't. And, for sure, we've now learned we can't have more of both at the same time.

NOW, TO LOOK AT THE $222.2 BILLION MILITARY PROPOSAL . . .

We're talking really big additional bucks. The current de- se budget is $171.2 billion. The new one is $25.8 billion her than Carter reluctantly called for.

ndisputably essential are the added moneys for increased ining, for such things as protective masks, desert camou- ge uniforms, and especially for spare parts, ammunition and l. To have our military hardware paucities compounded by lack of spare parts and ammo as a result of the military's n past budgetary flimflam is inexcusable. Those responsible uld have their heads rolled into swift retirement.

ndisputably prompt *sizable* jumps in technicians' pay (unre- d to across-the-board hikes) are essential, such as for the nputer operators of the Avionics computer required to lo- e problems on the F-15 fighter. According to the Spinney ort (publicized over the near-dead bodies of Pentagonians Georgia Senator Nunn), these superb-when-operating fight- are "non-mission capable" 44% of the time. The computer ocate the problems was "non-mission capable" 20% of the e last year, 50% of the time the year before.

et in 1980 not one of the 33 technicians able to operate se computers reenlisted.

s for the billions proposed for specific new systems, that's subject to discussion just so long as decisions are made.

Obviously the $40 billion-to-$100 billion honeycombing of Nevada and Utah for MX missile sites should be axed for being the near-pure buncombe it is. Putting those super MX atomic missile equalizers into some new and/or converted ships from which they can be rolled and fired by remote control is the swiftest, cheapest and most sensible way for the MX to go.

As Admiral Thomas Moorer, former Chief of Naval Operations, told FORBES: "Several ships widely dispersed could never be successfully attacked simultaneously and they'd function as an early warning system if that were tried. But most important, the impact of a nuclear weapon out in the middle of the ocean wouldn't jeopardize our people. Remember, we're trying to keep enemies *from* attacking our country, not inviting them to do just that."

Ordering up more F-14s, F-15s, F-16s and F-18s and other now-in-production planes lessens the unit cost and will result in shortening delivery times.

The economies of scale that result from ordering enough long enough ahead—with a *real* freeze on changes—should get us more military stuff in hand instead of stuck along constantly interrupted production lines—all at far lower cost.

IT'S DOWNRIGHT OUTRAGEOUS THAT THOSE BIG OIL COMPANIES

spending billions to take over major mineral companies tead of using their huge cash piles to develop additional rgy sources or for refineries able to handle today's far vier crudes.

hey have the gall (and blindness) to pay whopping prices copper mines and such and at the same time to cry out d because the Reagan Administration is going to cut back federal funding for synfuel and other energy research and plant development.

It's one thing to go into coal—that's energy related.

But these other acquisitions are about as "justified" as Mobil was in getting into the cardboard box and shirt business, and Atlantic Richfield into the London newspaper business.

While Prudential Insurance, foresightedly, soundly (and, co-

incidentally, in the national interest), will be investing $400 million as a limited partner in energy exploration projects, the energy companies are "diversifying" out of energy with their present profits from it.

Is it ignorance or arrogance or what could it be that makes Chevron ($4 billion for Amax), Sohio ($1.77 billion for Kennecott), Amoco (Cyprus Mines), Union Oil (Molycorp), Atlantic Richfield (Anaconda), in a time of national capital scarcity curtailment of government energy subsidies, engage in s extraneous, gluttonous gobbling?

If they're preparing for the day we run out of oil, it's i other energy sources their billions should be going. We're *ne* going to run out of the need for energy. *That's* their busines present and future.

FINDING THE RIGHT TOP-RUNG EXECUTIVES IS TOUGH

One of the critical responsibilities of chief executives and those who head assorted units of conglomerate and unconglomerated corporations is finding the right person for jobs in the $75,000-$100,000-plus bracket—not counting bonuses, fringes, incentives. There's always a flow of openings as a result of incumbents hired away, fired away or just dying away.

We developed an idea for an *editorial* feature that we thought might be of value both to those seeking such executives and to our readers who might want and fit the slot. So we wrote to the CEOs of the FORBES 500s asking for their reaction to this possible new feature, *Executive Search:* "FORBES will select for publication those that seem the most interesting or unusual or hold the widest potential interest.

"Responses would be directed to the company itself in whatever way the company thinks appropriate. FORBES would confine its role to making the search known. The company would determine how best to handle the responses.

"It's not often that a magazine of Scottish heritage gives anything for free, but I think the attraction to readers of this editorial feature fully warrants this exception.

"We're eager to have your reaction."

Reactions were received in volume. The majority responded favorably but almost invariably caveated (with a bow to Secretary Haig for coining this useful verb) their responses. Four out of five emphasized that, at such executive levels, their policy was to promote from within and only in rare cases did they find it necessary to reach outside.

A number expressed concern that they might be swamped with applicants and that screening for the most eligible would be enormously time-consuming. Added one: "This might tend to draw responses from people who are looking for jobs, rather than the people that we might be looking for who tend not to be actively searching for a job."

For such reasons and several others, many mentioned the value of using executive recruiting consultant firms that would be familiar with the company, its modus operandi, its personnel, and thus be recommending only the most likely for interview. On the other hand, one wrote, "I see one potential pitfall—the search firms may respond to the ads and try to assume the search for us and/or send us a volume of resumes."

There was a recurrent expression of concern about confidentiality—that the job description itself might be a tip-off; that names might inadvertently leak out along the way. Some dealt humorously with a very practical problem—"There is always the fear on the part of the reader that he might be sending in his resume to his own company."

Wrote another, "I would hope not to catch any of *my* people poring over that particular page." And one CEO observed, "I do hope it isn't too attractive to many of our own people—all of whom are avid readers of FORBES." Added the head of a major bank, "As a matter of fact, I have never become so complacent that I neglect reading the help wanted ads myself."

The reactions ran the gamut from American Motors Board Chairman Meyers' handwritten note across our letter: "Mr. Forbes—your idea is harebrained and useless—forget it!" to that of a major communications corporation, "I think the idea of your new editorial feature . . . is nifty. We are having a god-awful time with the headhunters, most of whose candidates seem to come out of the dustbin. It took us about a year to finally get a president for [a major division]. This was really amazing because you could hardly be in an industry with more sex appeal. . . ."

A thorough analysis of the thoughtful, provocative responses from those running corporate America revealed that, of the enthusiastic majority, most said they themselves were unapt to have occasion to use this contemplated *Executive Search* feature. Others said they'd try it on a rare occasion should the need arise. The firm negatives dwelt mostly on the need for confidentiality, the difficulties of screening and, hence, their reliance on either personal contact or head-hunting firms when promotion from within was impossible. From their consensus, our consensus is to put the proposal on the shelf.

From the several hundred responses, only one enclosed a specific position that wanted filling and I think, in fairness, we should run it:

CORPORATE GENERAL COUNSEL

An industry leader in high-technology industrial, scientific and consumer products has an opening for Corporate Counsel on executive staff. We are a multinational manufacturing firm with sales in the range of $750 million.

This position will be responsible for organizing and directing the legal activities of the corporation and providing legal counsel and guidance to the officers, directors and corporate executives on matters involving taxes, insurance, patents and the acquisition, protection and disposal of real and personal property.

The position will provide a stimulating work environment and personal career growth for a creative and energetic individual.

Location is at corporate offices in upstate New York. An attractive compensation package including stock options and incentive programs will be offered commensurate with the credentials and capabilities of the successful candidate.

For confidential consideration, please forward resume, including compensation history and requirements.

Mail to: Forbes, P.O. Box 686, Old Chelsea Station, N.Y., N.Y. 10013

WITH ALL THE SNIPPING AT THE FIRST LADY'S DRESSES

it's a wonder Mrs. Reagan's got anything left to wear.

ONE THINKS OF BILL MOYERS AS MORE ACERBIC

than funny, but during his fascinating interview with that redoubtable adviser of Presidents, Clark Clifford, the former Truman key aide recalled an incident when Bill Moyers was President Johnson's press secretary. Johnson was known on occasion to strain the most unflappable of his aides. "It

got pretty testy between Bill and the President, so one afternoon, one of the men in the press corps said, 'Bill,' and you said, 'Yes.' He said, 'Where is the President?' and you answered, 'He's down on the lake.' So the pressman said, 'Is he boating?' 'No,' you said, 'He's taking a walk.' "

IT'S NO LONGER ALWAYS AN IMPERTINENCE

unduly risky to ask of friends, in addition to the health of ir young, what their offspring are doing. Most of 'em *are* ng these days.

ut an observation in Ted Morgan's *On Becoming Ameri-* reminds us that not so long ago, things were otherwise:

I asked a writer friend of mine what his son did. He looked ved. 'That's like asking your host how many times a week sleeps with his wife,' he said. 'He graduated from high school and went to college for two months before deciding he wanted nothing to do with bourgeois values. Since then he's been doing odd jobs and resting in between. He picked potatoes for a while but quit because the farmer was using chemicals. There is always some ecological principle that keeps him from being gainfully employed. I call him Saint Francis of Assisi because he won't let me kill mosquitoes in my own house. All life is sacred, you see.' "

WHEN YOU CEASE TO DREAM

you cease to live.

TO BE SURE OF GETTING

what you want, want not.

PEOPLE—NOT MACHINES—CREATE WEALTH

By M.S. Forbes Jr.

The Reagan tax package has been criticized for providing too little encouragement for saving and investment and too much for consumption. The notion is that tax breaks for business mean more investment, which is "good," while reductions for individuals mean more consumption, which is "bad."

The critics are missing the point. They forget that people are producers as well as consumers.

No one argues with the need for more realistic depreciation schedules. But tax breaks for business will do the economy little good unless individuals are given incentives to work harder, to earn more.

A look at Britain and Sweden demonstrates the need to motivate people as well as corporations.

Britain's individual income taxes are among the highest in the Western world. Yet the country's business investment laws are among the most liberal, so liberal in fact that large British companies rarely pay corporate income taxes even when they are making a bundle of money. Nonetheless, capital spending has stagnated for the past dozen years.

Sweden's personal income taxes are even more ferocious than Britain's. It simply doesn't pay an individual to earn more. Profits, though, are taxed hardly at all if they are reinvested.

Result: Business investment looks good on paper, but much of it goes for "hidden" consumption, like cars for managers. Moreover, Sweden's reputation for innovation and technological advance has withered away. The country today is one of Europe's sickest.

There must be a balance between business and individual taxation.

The chief difference between the Reagan approach and the consumption-oriented tax cuts of the past 15 years is that it provides incentives to earn more taxable income by reducing tax rates. Obviously, there is greater incentive for a worker to work more if each additional dollar earned is taxed at a 36% rate rather than a 50% rate.

Contrary to popular criticism, the Reagan reductions also provide powerful savings incentive, especially at the higher tax brackets. The aftertax return on a dividend goes up 67% for someone in the 70% tax bracket. This person would keep 50 cents on the dollar under the Reagan program rather than the 30 cents allowed under current law. The Kennedy tax cuts enacted in 1964-65, which were similar to Reagan's, brought about a 40% increase in total savings.

But many economists contend that we would better increase savings with a rifle-shot approach, such as increasing the amount of investment income that is free of tax or slashing the capital gains levy.

Such programs, though, will be most effective only in the framework of a general tax reduction. Otherwise the motive for people to earn more (or to report more) won't be as strong. Remember, it is from individual incomes that most of our capital is derived. Savings increase faster when real incomes are expanding than when they are stagnant. The more people earn, the greater percentage of their incomes they save.

Another point to keep in mind is that higher capital formation in and of itself is no panacea. Britain, for instance, has several generous savings schemes; its personal savings rate is twice our own. But where does this money go? Government bonds.

Savings will be most efficiently utilized only if people are motivated to try to get ahead.

The Reagan package recognizes that people—not natural resources, machines, savings schemes or easy depreciation schedules—are the ultimate source of wealth.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Pentagon in a Spinney

The quickest way to understanding the dread evoked in the Pentagon by Spinney [civilian analyst with the Programs Analysis and Evaluation Division of the Pentagon] is to quote his bottom line: "Our strategy of pursuing ever-increasing technical complexity and sophistication has made high-technology solutions and combat readiness mutually exclusive." That is, the more money the U.S. presently spends on defense, the less able it is to fight. . . . More money has produced fewer but more complex planes which do not work much of the time. Deployment of fewer planes means a more elaborate and delicate communications system which is not likely to survive in war conditions.

—*Village Voice*

Hand Off

The trouble with my economists, Harry Truman used to say, is that they're always saying, "Well, on the one hand. But then again, on the other hand." Truman knew what *he* wanted—a one-handed economist.

—Michael Kramer, *New York*

To Do Wrong Takes Time

Up on Capitol Hill, the chairman of the Ways and Means Committee thinks he needs a couple of months to sort things out. Since Mr. Rostenkowski was working on tax matters long before he became chairman, we kept wondering what it was he needed to know.

The answer became clear upon pondering the Democrats' televised response to the Reagan message. They need a little time to figure out how to change the tax code in ways that will encourage more savings and investment, but will not give more money to those taxpayers who save and invest.

—*Wall Street Journal*

What Next?

Le Cirque, the fashionable East Side restaurant at which President and Mrs. Reagan joined friends after the theater . . . was visited . . . by agents of the Secret Service and the FBI and inspectors from the FDA.

"We all even had to tell our birthdays," the chef, Alain Sailhac said. "But I don't know why. Maybe it's because they wanted to check our zodiac signs."

"I'm a Gemini," said Dieter Schorner, the pastry chef, as he dipped his delicate nut and fruit cookies into molten chocolate. For his final effort, he would form tiny chocolate baskets to be filled with jellybeans. "What can you do?" Mr. Schorner asked. "One likes peanuts. The next wants jelly beans."

—Mimi Sheraton, *New York Times*

Ship Out Grandpa?

According to the newspapers, retired people are only good for adding to inflation, unbalancing the budget and dragging down the working and producing portion of the population. The message beeped out from the organs of our society concerned with making wealth—places like the *Wall Street Journal* or FORBES—is that we don't have surplus enough to take care of our ancients, who, we are told in irked tones, aren't dying nearly as fast and therefore as satisfactorily as they did. Let's face it, we can either have a two-and-a-half-war Navy or grandpa.

—Nicholas von Hoffman, *Washington Post*

An Audience to the End

Stockman is the cutting edge of the economic revolution Ronald Reagan promised the voters, and he is very vulnerable. "We won't leave you out there alone, Dave," the President jokingly assured Stockman at the conclusion of one White House meeting on the budget. "We'll all come to the hanging."

—Sidney Blumenthal, *NY Times Magazine*

Is David High?

David Stockman really doesn't care. He's like a bomber pilot flying high; he can't see the bodies he's destro

—Representative Peter A. P
(D-

About Those Budget Cu

Of course, Republicans are sayin equitable. They say the wealthy w paying fees to park their yachts.

—House Speaker Tip O'

Always in human hist good is no match for evil w out the power to physically fend itself.

—Israeli author Hillel H

NYC Nighttime Noises

New York City now has the pow keep motorcycles off the streets there'll be no nighttime motor noise to distract New Yorkers i upon listening for the light step o second story man, or the distant cr of Bronx revolvers, or the small kab of a firecracker going off in the ear sleeping derelict. A slowing subway will goose the needle of a decibel m up to 122 dB(A), which is not far the threshold of pain, and the com ers don't even look up from their *Po*

—Cook Nei
former editor, *C*

Flaming Tempers

Bo [Derek], producing her first m was furious with reports that Lee C lito was fired because of over-amo love scenes that were too hot for band John Derek to handle. Derek, directed the movie, said, "That m would not know what a hot love s was if his loincloth caught fire."

—*New York*

"Refresh my memory. Who was Carter's Director of the Budget?"

"...I'll stake my Corum on it."

An eminently successful timepiece from Corum.
The authentic $20 Gold Piece, quartz and water-resistant.
Hand-crafted in Switzerland.
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THE TASTE BEYOND 12-YEAR-OLD SCOTCH

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Let your mature taste lead you from the finest premium Scotch on up to the most expensive 12-year-old Scotch in the world. The Glenlivet. The ultimate in Scotch.

Most premium Scotch is blended and depends on several whiskies for taste and smoothness.

Yet the unblended character of The Glenlivet is noble enough to stand alone. In this distinctive Scotch whisky you'll experience an exceptional smoothness and full-bodied richness, unmatched in all other premium Scotch.

Try the taste beyond premium Scotch.

The Glenlivet
Unchanged since 1824.

PRODUCTIVITY: BETTER NUMBERS AHEAD

WATCH THE PRODUCTIVITY NUMBERS. Since 1975 these have been unrelentingly bad. In the Fifties, Sixties and early Seventies, rising wages were partly offset by rising productivity, so inflation stayed moderate. But more recently, with U.S. output per man-hour flat or declining, U.S. products have become less competitive abroad. At the same time, inflation at home was accentuated because workers demanded their accustomed wage gains without offsetting increases in output. FORBES expects these productivity figures to turn around shortly and remain better for the rest of the year.

Japanese imports: bad for General Motors, good for U.S. inflation

CURIOUSLY, THE JAPANESE auto shock is going to help, too. Chrysler workers have already given major wage concessions. So have workers in a number of other companies. The auto industry's massive reequipment and automation programs will also bring down labor costs.

Now, let's look at foreign trade. It is quite strong. The U.S. external account on the balance of payments will be in surplus this year. Excluding as it does capital flows, it is an accurate measure of the demand from abroad for U.S. goods and services. With this account in surplus, there will be fewer dollars flooding into foreign markets, depressing the value of the U.S. dollar and increasing the cost of the things we buy from overseas.

Fewer dollars flooding out, less inflation flooding back

WE CONTINUE TO LOOK FOR MODERATE OVERALL STRENGTH in the U.S. economy and a continuing decline in the inflation rate, which could be as low as 8% by year-end.

A setback for the Reagan Administration's economic program would, of course, be bad news for productivity and inflation. Is such a setback likely? Forget the doomsaying and headshaking in the press and on the tube about the massacre that allegedly awaits Reagan's proposals. While the newshounds keep the story going by quoting the opposition, Reagan's dedicated—some say fanatical—team is pressing the battle in Congress. This Administration, Washington experts say, has follow-through. Unlike Jimmy Carter's team it isn't content to send proposals unescorted to Congress where the wolves would tear them to pieces. Even those who don't agree with the policies admire the zeal of its believers.

Observe the tactics. Blunt. Almost purposefully tactless. Treasury Secretary Regan snaps at a questioning liberal Democrat in Congress. When David Stockman is accused of offending social interest groups with his budget-cutting he replies: "We don't have their vote anyway."

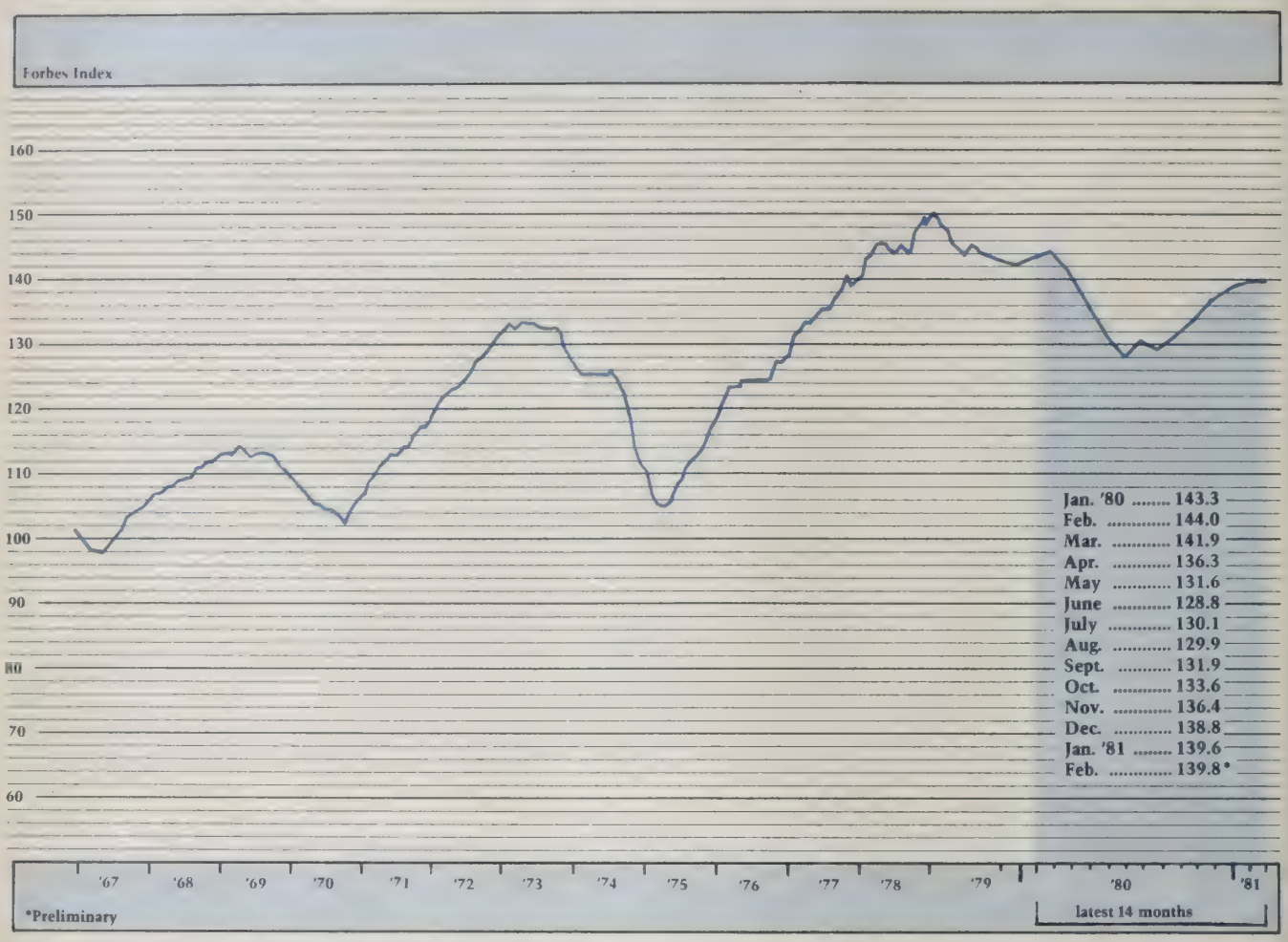
In trying to placate everybody, past Administrations accentuated economic decline

EUROPEAN BANKERS AND THE HEADS OF ALLIED STATES are hearing similarly blunt talk. The Germans want the U.S. to lower interest rates to take pressure off the deutsche mark. The Administration tells them that the first job for the U.S. government is fighting inflation at home.

The point is this: In trying to please everybody, past Administrations simply made inflation worse.

Until some kind of a tax bill and concrete spending cuts come out of Congress, economic predictions are extremely risky. The mounting chorus of screaming from potential cuttees—from tobacco farmers to professional spokesmen for the poor—has an ominous sound. But the counterpressures are strong and the odds are very high that the U.S. will depart from 1981 with a lot more fiscal discipline than it went in with.

The Forbes Index



The Forbes Index Components

Inching toward a peak? The Forbes Index is still heading up, but ever so slowly. Personal income and retail sales continue to climb. Those gains, however, barely offset sharp declines in two other sectors. Housing starts are 10% below their year-ago level, and industrial production is retreating from January's high. If a recovery is at hand, you can't forecast it from these numbers.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

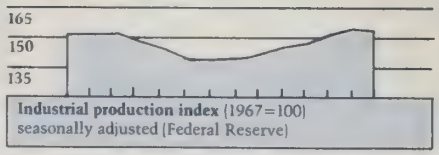
Total retail sales

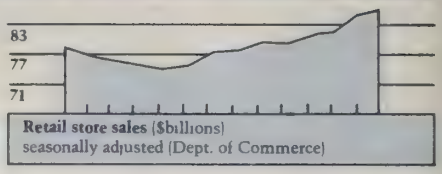
New housing starts

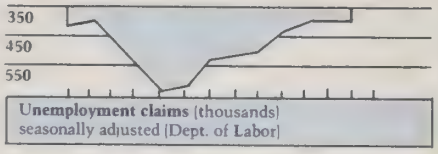
Personal income

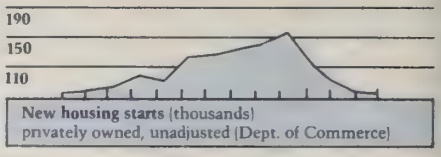
The change in the amount of consumer installment debt outstanding

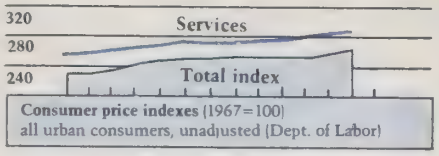
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

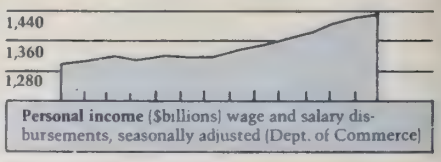


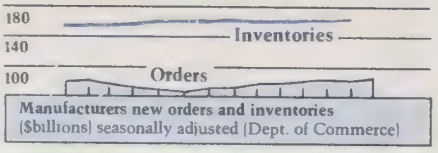


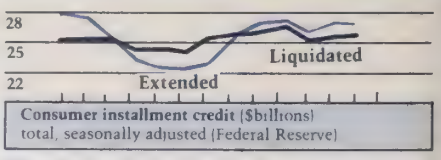












Why are more full-size and luxury cars being traded for full-size Chevrolets than any other make?

The people who trade in full-size and luxury cars today, both foreign and domestic, can buy virtually any new car they choose, from the smallest economy car to the most expensive luxury model.

So it's significant that more of them are choosing the full-size Chevrolet than any other single make.

Our 1981 Caprice Classic, for example. An automobile with a level of quietness and smoothness of ride very likely the equal of any full-size car you've ever owned.

A luxurious automobile. And now, with new available diesel power, one with higher fuel economy than some small foreign cars — 34 MPG highway estimate, 22 EPA estimated MPG.*

We invite you to spend 30 minutes with our uppermost Chevrolet today.

Sit in it. Test drive it. In your search for a quiet, comfortable, elegant automobile, you may have overlooked the most obvious choice of all.

The one at your Chevrolet dealer's.

The Chevrolet Caprice Classic.

*Use estimated MPG for comparisons. Your mileage may differ depending on speed, distance, weather. Actual highway mileage lower. Estimates lower in California. Chevrolets are equipped with GM-built engines produced by various divisions. See your dealer for details.

After the whirlybird sets down the doghouse, the jug hustlers a

It only sounds like an Australian song. Actually, it's part of the jargon used by seismic crews as they search for new reserves of oil and natural gas. And nowadays you can hear it in some of the most rugged and remote areas of the United States. What does it mean?

The whirlybird is obvious. That's the helicopter. And the doghouse is the white, cylinder-shaped object sitting at the edge of that cliff. It's the crew's command post, housing seismic recording equipment.

Jug hustlers are people who lay out geophones on cables connected to the doghouse Shooters then set off seismic signals nearby, probing geologic structures thousands of feet below the earth's surface.

And the whole operation is affectionatel known to its practitioners as doodlebugging.

Despite its odd nickname, seismic explo tion is a sophisticated, highly specialized busi ness. And there are few organizations in this growing field with the skill and experience Seismograph Service Corporation. In 1981 thi Raytheon company celebrates 50 years of

ooters can start doodlebugging.

lping its clients find new energy deposits.

In 50 years the basic job hasn't changed. still requires putting skilled people in the field, e this SSC crew shown in the Western Over-rust Belt in Utah. But the tools to get the job ne have changed. SSC, for example, is a leader using advanced computer techniques to ocess and interpret seismic data.

Right now, SSC has more crews at work than er before, not only in the United States, but and off the shores of many other countries ound the world...ample evidence of the firm's success in serving this growing market.

Raytheon...a $5 billion company in electronics, aviation, appliances, energy, construction, and publishing. For copies of our latest financial reports, please write Raytheon Company, Public Relations, 141 Spring Street, Lexington, Massachusetts 02173.

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ord had to borrow billions of dollars last ear and even now the automaker is bleed-ng cash. So why is it paying a dividend?

Generous to a fault?

By Allan Sloan

ANY COMPANY that paid more than $300 million of common stock vidends last year must be the cture of health—or at the very ast, not terribly troubled, right? Wrong. Not if that company is the rd Motor Co.

Last year Ford lost almost $3 billion etax on its North American operons. That's half again as much as criped Chrysler lost in North America prek, and three times what General Mors lost here. It took $800 million of tax edits and $600 million of overseas prof- to keep Ford's net loss down to a mere .5 billion.

Even though $2 billion of depreciation lped cushion Ford's cash outflow last ar, the company had to spend heavily research and development on new oducts. To pay its bills, Ford drew wn its working capital, and added $2 lion of debt to its balance sheet. As of e March, the company had $2.5 billion unused credit lines, and will doubtless ve to borrow a big chunk of that mon- this year.

And in 1981 there won't be any mase tax refund checks like those Ford got t year. At year-end, Ford had only 00 million of tax carryback credits ailable.

Despite the cash squeeze and the prosct of more difficult times to come, rd is still clinging to its common stock dividend. At the current level of 30 cents a quarter (cut from $1 last July), the dividend on its 120 million shares runs Ford more than $140 million a year. That's money Ford has to borrow at today's outrageous interest rates.

Any M.B.A.—or anyone else who can add and subtract—would tell you that the numbers say it's insane for Ford to be continuing its dividend. So why does the company do it? The answer is that Ford is not thinking solely in balance-sheet terms.

"You would completely change the character of the company if you eliminated the dividend," argues Ford Treasurer John Sagan, a passionate defender of the dividend. "You're no longer an investment-grade stock of any kind [if the dividend's cut out]. You can't willy-nilly raise dividends or eliminate them. You do that, you're a schlock company. It's like your virtue. Once you lose it, it's gone forever."

And though the dividend amounts to a lot of money in absolute terms, Sagan says, "for a $40 billion company, $140 million isn't that large in the balance."

But there's more than just stock considerations involved—there's pride. Ford has paid a dividend since 1947, shortly after Henry Ford II seized control of the then almost bankrupt company from his senile grandfather. To eliminate the dividend is an admission that things may be as bad now as when Henry II took over.

The biggest beneficiaries of the continued dividends, of course, are members of the Ford family. The family owns about 13 million shares of Ford stock. Even if you assume all the family's dividends are taxed at a 70% rate, the Fords still have a good few million left over.

But there's another Ford family—the extended Ford Motor family, as it were.

There are 27 million shares of Ford—22% of the company—in the employee stock plans, and employees and retirees own untold millions more shares in their own names. Take Harold Meyer of Lathrup Village, Mich., who worked 40 years at Ford before retiring in 1979. For his last 15 years or so at Ford, Meyer put 10% of his pay into the Ford stock plan and never sold a share. "If they weren't to pay a dividend at all, that would be very bad," he says. When the dividend was cut in the third quarter to 30 cents from $1, "that hurt," says his wife, Dorothy. "It's hard to live off 30 cents when you're expecting a dollar."

The auto companies' dividends are part of the social fabric of Detroit. Many car company employees buy stock heavily through the companies' generous stock purchase plans, and depend on hefty dividends to supplement their pensions and Social Security checks. Sagan's Dearborn, Mich. neighborhood is full of people who depend on Ford dividends, and would be disappointed in Sagan if they ceased completely. "This is not a cold-blooded society," Sagan says.

Most members of auto company managements live in communities where they're surrounded by people to whom auto stock dividends are an important source of income. It's harder for them to cut the dividend than it is for managers of a faceless conglomerate, where members of management rarely if ever come in social contact with living, breathing shareholders.

"We felt it important to keep some incentive for investors," says Ford director Franklin Murphy, chairman of Times

Mirror Co. He points out that many institutional investors, who hold close to half of Ford's stock, might be forced to sell it if the dividend were eliminated. However, Murphy won't say anything about whether Ford plans to continue the dividend.

Despite all the good will in the world, Ford may have trouble holding to even a 30-cent dividend. It wants concessions from the United Auto Workers, and the union will doubtless want to show its members that Ford management and shareholders are sharing the pain. There is also the problem of Ford's creditor banks, which will in all likelihood try to impose some kind of dividend res tion if Ford resorts to future multibil dollar borrowings.

If Ford eliminates its dividend, "Yo telling the public you expect the prob to be long term," Sagan says. "We this as a valley situation." But how is the valley? ■

The fabled entrepreneurs of personal computers are finding that in the real world the road to riches can get mighty bumpy.

Apple loses its polish

By Kathleen K. Wiegner

ONLY A LITTLE MORE than three months after its spectacular public debut, Apple Computer Inc. is confronting the real world. Forget the Apple of rags-to-riches hype, the company started in a garage by two young college dropouts. Forget, for a moment, the Apple that attracted the crème de la crème of venture capital—the Rockefellers, Teledyne's Henry Singleton and Arthur Rock, the dean of venture capital—and was taken public by Hambrecht & Quist and Morgan Stanley & Co., the first new issue that Morgan had deigned to sell in years.

The real Apple, its resources stretched taut, is facing significant problems. It is having a difficult time bringing a heavily promoted new computer to market. There are morale problems after the firing of 40 middle- and low-level managers earlier last month. Sales are booming but the company's runaway growth rate is leaving its factories hard pressed to keep pace with that demand. That's the story behind the recent announcement that the Cupertino, Calif. personal computer maker is reshuffling its top management.

Marketing whiz A.C. (Mike) Markkula Jr., 39, previously Apple's chairman, is taking over as president and chief executive officer. Steven Jobs, Apple's 26-year-old cofounder, is moving from vice chairman to a more ceremonial position as chairman.

Markkula, formerly a marketing man at Intel and at Fairchild Camera & Instrument, faces an early test of his management talents. The Apple III computer, much-touted successor to the company's hot-selling Apple II, was unveiled last May with great fanfare, with deliveries to begin in early fall. But instead of another bonanza, Apple encountered one snag after another in getting the III out the door.

Apple's Mike Markkula
Morale is only part of the problem.

First there were manufacturing problems. Then overheating problems in the main circuit board sent it back to the for an overhaul. Embarrassed Apple d ers, who began taking customer depo last fall, are just beginning to get volu shipments.

Some observers believe that the Ap III, while not a bomb, won't equal popularity of the Apple II. "I don't th the company will fully commit to Apple III," says one competitor. thinks Apple will probably keep the chine in the marketplace, but only u it comes up with a new computer— sumably one less troublesome and m advanced.

Apple's more than 850 U.S. dea were left not only without a new proc to sell but also with a raft of impat customers who decided not to wait the III and instead plunked down cash Apple IIs. Demand for the Apple II s up so fast earlier this year that the co pany was forced to put some dealers allocation.

Apple's meteoric growth has had a to do with its current problems. Si 1978, sales have vaulted from $8 mill to $117 million and this year could s to over $300 million. In the first qua of Apple's fiscal year ended Dec. 31, sa rose 63% over the previous quarter. ple now has 1,500 employees, up fr 500 a year ago. This year the compan spending a hefty $15 to $16 million of its estimated 1981 sales) on resea and development. Given this pace i not surprising that there was some l of control.

Earlier last month, in what Apple scribes as "part of an essential prun process" and a "reordering of prioriti 40 employees were weeded out. Ap prides itself on being run as one big h py family. But mass firings don't sit w in a "family" atmosphere.

Top management—which owns cl to 35% of the stock—is clearly aw that with a price/earnings ratio of 8 major mistake can turn the tastiest ap sour. Apple hasn't made a big mist yet, but in the Apple III it has a ma disappointment. And Apple still has prove that it can put together the kind innovative products, manufactur skills and long-range growth that co petitors like Tandy, Texas Instrume and Hewlett-Packard have been dem strating for years, with down-to-ea P/Es of 22, 13 and 20. It's not just h P/Es that separate hot little compan from good major corporations. ■

Don't bet the company" is an old rule, but hairman Bob Galvin came close to doing at at Motorola. He knew what he was doing, owever, and the bet paid off.

"Winning is not a sometime thing"

torola Chairman Robert W. Galvin
e can beat the Japanese in quality, quantity and cost."

By Bob Tamarkin

HERE'S THIS TO BE SAID FOR making consumer products: It gets and keeps your name before the public. en Motorola was a big factor in TV s and car radios it was almost a house- d word. Now people say: "Motorola? t that one of those art deco radio soles from the 1930s?"

ut so what? If the general public is aware of Motorola, investors appar- ly are. They know that the Chicago- ed outfit, long gone from the radio l TV business, did $3 billion-plus and ned almost 20% on its stockholders' ity last year. Accordingly, the stock nmands a price/earnings ratio of 12— g premium over the market.

Vell over $1 billion of those sales and a d half of Motorola's $186 million 96 a share) profits last year came n the technologically demanding, iiconductor business.

Last year Motorola Inc. grabbed the worldwide lead in the newest generation of semiconductor components—the 64K RAM (random access memory) chip—selling some 150,000 units for a 35% world market share. Those little gadgets sell for as much as $20 each. They are almost unbelievably complex and difficult to manufacture. A single 64K RAM contains 65,536 electronic components on a chip the size of a fingernail.

Motorola's surge in the 64K market is all the more impressive since it was playing catch-up to semiconductor pioneer Texas Instruments Inc. TI had at least a two-month head start over Motorola when it began shipping sample quantities of the 64K in late 1978 and early 1979. But Motorola has shipped six times more units than TI. A fast start in the semiconductor business is important because profit margins are higher at the start. There is a good chance the early part will become standard, forcing competitors to redesign for compatibility. That's what Intel accomplished in the mid-1970s with its 8-bit microprocessor. Motorola's President John F. Mitchell believes Motorola has achieved a similar advantage with its 64K chip. "I think everyone is mimicking the Motorola part," he says confidently. "We have tremendous momentum and are way up on the learning curve," Chairman Robert Galvin adds.

Today Motorola remains the largest producer of discrete components and overall is a solid number two in semiconductors behind TI and ahead of National Semiconductor, Intel and Fairchild Camera & Instrument. Moreover, Motorola is attacking foreign markets with a voracious appetite. Its operations are strung across the world from Toulouse, France to Sri Lanka, where last month it chose a site for a new assembly plant. Worldwide business accounts for about 30% of Motorola's $3.1 billion sales and 20% of its $186 million profits. Nearly 40% of its 70,000 employees work abroad.

Part of its overseas strategy is to meet the Japanese on their own ground. To this end, Motorola is supplying microprocessors to Sony Corp. for aerospace work. Recently, it bought 50% of Aizu-Toko, a subsidiary of Toko Inc. The venture will save Motorola at least two years in making and marketing MOS (metal-oxide-silicon) integrated circuits for the Japanese market. And Motorola may be about to crack a Japanese market where no foreign company has tread—Japan's government-owned Nippon Telegraph & Telephone. Until now NTT would not allow foreigners to bid on contracts. Motorola hopes to supply NTT with a line of specially designed telephone pagers.

That Motorola is where it is today is tribute to a bold and brave decision made in the 1970s by Galvin. Bob Galvin's father, the late Paul V. Galvin, founded the company in 1928 to make radios for Detroit's cars. Motorola went on to become a major challenger in TV sets, meanwhile branching out into two-way radios and communications products, and, later, by natural progression, into transistors and semiconductors.

By the mid-1970s, however, Motorola was in trouble. Its semiconductor business was in the red. The Japanese were smashing into the TV business, and Motorola was stalled in the number four spot in the U.S. market.

Bob Galvin, whose family still owns about 10% of 31 million shares, made a tough decision. The company would get out of consumer goods and concentrate on advanced products. Galvin sold his TV business to Matsushita for $115 million. (He did not want to part with the name Motorola. The Matsushita products made in the old Motorola facilities carry a Quasar brand name.) Galvin, 58, a quiet, thoughtful man with silver hair,

explains why the decision was made. Says he: "One TV dealer gave me the whole lesson one afternoon when he said 'The power is in the buyer.'" In short, Motorola couldn't control the retailers.

In the wake of a $25 million loss in its IC business in the 1974-75 recession, Galvin also fired the head of Motorola's semiconductor operation and replaced him with John Welty, the number two man in the division. Along with Mitchell, and Chief Operating Officer William J. Weisz, two of the corporation's strategic architects, Welty began implementing changes. First, the discrete and integrated circuits operations were split up, each with its own manager.

A discrete product is a single-function transistor. It contrasts with an integrated circuit consisting of many transistors and other elements "integrated" on a single silicon chip to perform varied functions. The two are quite different businesses. A veteran insider, Gary L. Tooker, was named to head up discretes. To run the IC operations, Motorola went outside, tapping Alfred Stein (FORBES, *Oct. 1, 1979*), a veteran of 18 years at Texas Instruments. Also created was a special unit of personnel to act as a liaison between the staffs of research and design, and production.

By the third quarter of 1976 the integrated circuits division was profitable and the semiconductor group as a whole was in the black. In 1977 Motorola won highly prized contracts from both General Motors and Ford to develop microprocessors systems for emission controls and carburetor regulation.

Motorola's diversified product mix is standing it in good stead in the current confused economic situation. While shipments are outstripping orders at most semiconductor houses, Motorola's bookings are still running ahead. Demand for MOS semiconductors has weakened, but some 65% of Motorola's chip sales are in discrete and bipolar circuits. Though these products are in mature markets they are still widely used in cars and computers. All in all, Motorola has an excellent chance this year of beating 1980 earnings of $5.96 a share.

As befits a good midwestern company, Motorola takes inspiration from the late Vince Lombardi: A sign on Vice Chairman Weisz' office wall quotes the old coach: "Winning is not a sometime thing. . . ." With that attitude, Bob Galvin and his team respect, but are not in awe of their Japanese competitors. Setting his mouth firmly, Bob Galvin says: "We can beat the Japanese in quality, quantity and cost." By the way, if you happen to be driving a 1981 GM car it almost certainly uses a Motorola microprocessor in its ignition system; Motorola is the leader in world automotive electronics. That goes for Japanese cars, too: electronics by Motorola. ■

In theory, Prudential's bid for the Bach Group makes a lot of sense. In practic though, things may work out differently.

Pru + Bache = ?

By Stanley Ginsberg

PRUDENTIAL'S PROPOSAL to buy Bache Group Inc. looks something like a whale eating an elephant. With 25,000 agents in 1,200 offices across North America and $60 billion in assets, the Pru is the largest insurance company in the world. Bache, meanwhile, has 3,000 brokers, 200 offices, and $284 million in capital. It is one of the biggest securities firms around.

The reasons for the deal are not hard to understand: Both companies need each other. Aside from the threat of a takeover by Vancouver's Belzberg family, Bache's profit margins are regularly half those of Merrill Lynch or E.F. Hutton. Prudential feels limited, too, because its high-cost marketing team is too often selling to lower-income customers. "For us," says Frank Hoenemeyer, Pru's chief investment officer and the man largely responsible for running the Bache negotiations, "this acquisition is a logical extension of our strategic direction—providing a greater range of products and services to a wider demographic group."

Clearly, insurers like Prudential confront major change. Customers are no longer content to leave their hard-earned dollars in whole life policies that return 3% to 4% when money market funds yield 4 or 5 times that amount. The move away from whole life, with its massive float and cushy margins, to low-margin term insurance, now about 60% of all life insurance in force, has eliminated a lot of the industry's play money. The hot price competition between the mutuals and stock companies has not eased the pinch, either.

As a result, life insurers have turned to other products. The Pru moved into the property-casualty business some ten years ago, but industrywide overcapacity has kept premiums, and profits, way down. ERISA created a lot of managed account business also, but pension funds, group annuities and the like are relative-

Prudential's Frank Hoenemeyer
Next step: what to do with it.

ly mobile chunks of money with that rarely exceed 50 basis points. If market goes against an insurer as it last March when bonds took their d even that can get squeezed. "We w actively considering setting up our c mutual funds, money market funds shelter programs," says Hoeneme "We're looking at the $25,000 $50,000-a-year consumer who alre has adequate insurance and is now lo ing for income and capital protection

Does that sound suspiciously Bache's clients? It should, for the brol age houses are in a similar margin b "A lot of what's happened to the brol age business," observes Donald Kran chairman of Kramer Capital Con tants, "is the result of the SEC's elimi tion of fixed brokerage fees in favo negotiated rates." Supposedly, negot ed fees were going to help small in tors. In fact, they helped the institutio who could use their big-volume clou cut extras to the bone. "All of a sudde

ramer continues, "the brokers had to ake their money from those small in-estors by selling them a lot of heavily ont-loaded products—shelters, annu-ies, money funds and insurance."

Merill Lynch, for example, picked up mily Life Insurance Co. in 1974, and utton and Shearson Loeb Rhoades be-n selling life insurance, too. Bache got to the insurance brokerage business in 978, with the acquisition of Albert M. ender, a West Coast property-casualty oker. Last year it acquired Ter Bush & owell, Inc., an East Coast business that nters on group insurance.

Opportunities for synergy abound. ow, the Pru's army of agents can peddle Bache-run mutual funds. Bache's stockbrokers might add segments of the broad Prudential product line to their wares. The ultimate battleground, of course, is with such companies as American Express, Citicorp and Merrill Lynch, which have long labored to become marketers of a full line of financial services. What Prudential has to offer is its massive asset base and the industry's largest-selling network. It will surely be handicapped, however, by the inherent complexities of linking any two big organizations and by its relatively late entry into a crowded field.

What's more, Prudential's managers admit to having no clear competitive strategy in the works. How do they see Bache complementing their basic business? "I really don't know," confesses Chairman and CEO Robert Beck. "The deal came to us, it looked right and we went with it. But we haven't developed our battle plans." While few details of the proposed acquisition have been made public, Hoenemeyer does acknowledge that Bache's current top management will stay on at least until contracts expire in July 1982. He also makes a point of noting that 7,500 of the Pru's agents have already passed the NASD qualifying exam for registered reps.

Roger Birk, James Robinson and Walter Wriston are fairly warned. ■

Vhat were those Canadian oil and money nen doing in Houston? They were getting ogether to work out . . .

The end run around Trudeau

By Phyllis Berman

CANADIAN PRIME MINISTER Pierre Trudeau, lawyer by training, politician by trade, seems to be get-ig results from his new rules for Can-a's oil and gas industry. But the results ay not be quite what he intended or esaw.

Trudeau's intent was to reduce foreign nership of Canada's oil and gas re-urces from 75% to about 50%. To ac-mplish this he hit the Canadian indus-last October with a number of new les. Among them: an 8% tax on gross venues, an additional tax on natural gas es, loss of much of the tax benefit of pletion and its replacement with an tawa subsidy for exploration, which ries in proportion to degree of Canadi-ownership. He also gave the govern-nt the right to acquire a 25% interest any new discovery made in federal nds or waters and established yearly ce limits for Canadian oil and gas for e next ten years.

ndividual Canadian investors have no uble ignoring Trudeau's arbitrary con-aints. They're busily pouring money o oil and gas exploration in the U.S., en by way of the Vancouver Stock Exchange, which is booming. Canadian pension fund managers, in contrast, have a huge problem. They have been under long-standing orders from Trudeau to limit investments in foreign securities to 10% of fund assets, with 90% of their investments allocated to Canadian companies. But, to Trudeau's chagrin, the fund managers have lately learned to deal with that problem. The trick is to find companies that have both Canadian ownership and, say, half or more of their cash flow (earnings plus depletion and depreciation) from the U.S.

Only last month, for example, 40 Canadian analysts and money managers—representing billions of dollars of investment power—spent three days at a conference in Houston sponsored by the Toronto brokerage firm A.E. Ames & Co. The assembly at the Houstonian convention, hotel and health spa complex included $27 billion (assets) Royal Trustco, $19 billion Canada Trustco and $8 billion National Trust Co. There, in the posh Elm Room, overlooking 18 secluded acres of pine forest, the Canadians heard presentations from 12 oil-related companies that met the test.

These Canadian companies were not newcomers to the U.S. Many had come down in the mid-Seventies after an earlier Trudeau assault on the Canadian oil and gas industry in 1974. There was, for example, Husky Oil, at $1.1 billion (revenues) a giant of the bunch, a company over 75% owned by Canadians but obtaining 53% of its operating income from refineries in Wyoming and Utah plus other producing properties and gas stations in the U.S. There was Czar Resources, a small wildcatter with most of its proven reserves in Canada but with 50% of its cash flow coming from the U.S. Czar, based in Calgary, established a U.S. base in Houston three years ago and now has 10,000 net acres in the Austin Chalk, a thick south Texas belt of oil-producing fractures. This year Czar will spend $47 million on U.S. exploration, more than it will spend north of the border. Thus does Trudeau's action divert capital away from his own country, presumably just the opposite of the result he intended.

It's not as though Trudeau hasn't been warned about the effect of his actions. In 1974 his government disallowed the deductibility of provincial royalty rates for federal tax purposes, hiking combined tax and royalty rates to more than 100% in some cases. And Canadian oil companies took the hint. "Back in 1974 and 1975 Canadians sucked up all the available office space in Houston," says analyst Lynn Houston of Cowen & Co. But in 1975 Trudeau softened his stance, taxing only 75% of oil companies' production income. The Canadian industry drilled in Canada again.

This time Trudeau is using carrot as well as stick with Canadian oil. Because of his exploration incentives, a company such as Dome Petroleum, through a newly created subsidiary, will be reimbursed 80% of its enormous exploration costs in the Beaufort Sea, off Canada's Northwest Territories. But that hasn't kept Dome out of the U.S. Dome intends to spend some $85 million in the U.S. this year. It didn't appear at the Houston meeting. Neither did Home Petroleum, the subsidiary of Canada's Hiram Walker-Consum-

Canada's Prime Minister Pierre Trudeau
So much for his intentions.

ers Home Ltd. But Home had sent its money south a few months ago when it paid $630 million to Denver oilman Marvin Davis for some of his U.S. oil and gas properties.

The pension fund managers completed their conference and departed Houston, keeping any commitments they may have made hush-hush. Naturally, most would like to keep their end run around Trudeau as quiet as possible.

But what kind of investment opportunities did they find among the expatriate Canadians? Many companies are working a peculiar geological formation called the Austin Chalk—some of them enjoying a high cash flow because of it. One such company is Calgary-based Trinity Resources. Trinity was nearly broke in 1976, when Murray McKinnon took over its presidency and had the happy notion of raising fresh capital on the Vancouver Exchange.

That's been a wild market in recent years—mushrooming in trades and members, loosely regulated, casually policed—but never wilder than now when Vancouver is the most active stock exchange in Canada. Last year 1.72 billion shares, worth $3.8 billion, were traded there, up from 913 million shares worth $1.3 billion in 1979. Swelling the totals, of course, is the anxiety of Canadians to push money into U.S. oil deals now that their own government has soured the action at home.

McKinnon took the money he raised in Vancouver and headed for Texas and the Austin Chalk. Trinity's interests in 58 wells in the Chalk now yield a net production of 1,400 barrels of oil and 3 million cubic feet of gas per day. That's enough to provide Trinity with roughly three-quarters of its estimated cash flow of $12 million a year.

The Austin Chalk—which some oilmen have taken to calling the Canadian Chalk—is a prolific producer. Its largest field is now producing over 80,000 barrels of oil and 234 million cubic feet of gas a day from 960 wells. Advanced seismic techniques assure success ratios as high as 80%. And because of the geological characteristics of the trend, initial production is abundant, ensuring rapid cash flow. Wells have a way of declining quickly to more modest production in the Austin Chalk. But you can't have everything.

"Cash flow is what counts in this business," says McKinnon. "With those high success ratios a Canadian company gets immediate cash flow. And since Canadian operators can't write off U.S. exploration expenses against Canadian income, immediate cash flow in the U.S. means that they are using U.S. tax dollars continue their exploration here."

Leslie Broker, vice president in cha of Czar Resources' U.S. operation, plains the two countries in an oilma terms. "The disadvantage in the U.S that this is a more mature province," says. "Reserves are harder to find a even when you do find them, there are as many reserves per well. In Can you're dealing with a situation wh geological information is part of the p lic record. Here in the U.S. no one has reveal anything about what he's fou So, in Canada you don't have to be good at finding oil and gas—yet with price of oil and gas in the U.S. 3 o times what we can get in Canada, the no question that while it's harder he it's better here." ■

As a big supplier to the auto and truck indu tries, Fruehauf Corp. could be in trouble. The why is Bob Rowan worried about a takeover

"We're close to earning $10 a share"

By Maurice Barnfather

IN THE COMFORT of the executive suite deep within $2 billion (sales) Fruehauf Corp.'s outwardly austere Detroit headquarters, you get the feeling Chairman and President Robert D. Rowan's most pressing decision is whether to relax in front of his roaring fire or work out on the gleaming Nautilus machine in the exercise room tucked away at the back of his office.

But the relaxed, oak-paneled atmosphere surrounding Rowan is deceptive. He has little time for these diversions. He's running the world's largest maker of truck trailers, with a third of this highly fragmented market. After four straight upticks, Fruehauf's earnings collapsed last year to $2.63 a share, from $7.28 in 1979. "Interest rates really killed us," Rowan says, recalling the 40% slump in industry unit sales. "It's as if someone took a meat cleaver and chopped off our incoming orders," he adds.

Is Rowan worried? After all, interest rates are still historically high and recent economic indicators like falling co modity prices and rising unemploym claims suggest that the economy mi be slipping again into recession. N Rowan has never been happier. "It's h to think of a business with greater pot tial," he says, sitting on his patchw sofa, legs crossed, arms crossed—a presumably, fingers crossed too. "Lo February's orders rose 20% on Janua March will be ahead of that. The rec ery's beginning. I expect record sales a earnings in 1982 and for several ye after that." Whistling in the graveya Actually, Rowan has a host of good r sons to think positively about Frueha

Optimism comes naturally to B Rowan, a born salesman who has dev ed most of his working life to Frueha but the facts seem to bear out his r expectations.

Says he: "The industries we serve undergoing a revolution. Trailers we'll building five years from now will completely different from today' Why? "Because the cost of oil is goi up," he says. "We're working on equ

ıent that'll give 15% to 20% more mile-
ge and haul 20% to 40% more goods."
's a rerun of what's happening in the
uto industry. "But unlike the auto in-
ustry, there are no Japanese firms that
an economically ship a 6-ton trailer and
ıreaten our market during the transi-
on to more fuel-efficient trailers," says
owan confidently.

He's right, of course, and it's going to
ıean trailer sales above the levels need-
d to replace worn-out stock or to cope
ith a revived economy. "I'm convinced
ıere's a pent-up demand," says Rowan.
e predicts industry unit sales of
95,000 in each of the next four years,
ompared with 132,000 units in 1980. Of
ourse that depends, says Rowan, on
eagan's medicine, which he thinks will
ork, and on the level of interest rates.

by locally based subsidiaries. But foreigners, it seems, lag the U.S. in trailer chic. Example? "Piggybacking, trailers on railcars; the English have decided they just discovered it. And the same is true in much of Europe," Rowan says, rubbing his hands at the prospect of greatly enhanced overseas sales as new uses are found for trailers.

Not all Fruehauf's eggs are in one basket. "Our diversification's so successful it's unbelievable," he says. "The thing is, nobody ever looks at the figures." For instance? "We acquired two beat-up, downtrodden shipyards that were going no place and doing nothing. Today they're the two best repair yards on the East Coast." Says Rowan of his two shipyards at Baltimore and Jacksonville, Fla., which accounted for almost 10% of sales

that? Says Rowan, arms outstretched: "Our shareholders should look to the East and praise Allah for this diversification." He means it. Kelsey-Hayes is a leading maker of lightweight aluminum small-car wheels. As Detroit downsizes its cars, lighter, smaller wheels are what's wanted. Kelsey-Hayes might, after all, be a bonanza.

Clearly Fruehauf will be spending heavily in trailers and other businesses like Kelsey-Hayes. Indeed, capital spending was $88 million last year, *vs.* $163 million in 1979, and it is projected at $100 million in 1981. Long-term debt is already approaching 45% of capital. Where is the money to come from? For one thing, Fruehauf has a healthy cash flow despite depressed earnings last year. Moreover, its finance subsidiary, uncon-

uehauf Corp.'s Chairman Robert D. Rowan
ur shareholders should look to the East and praise Allah."

ou know, those same people who said
hen we were in an economic heaven
at things were never going to change,
y nothing is going to improve now that
e're at the bottom of the cycle." Says
angry Rowan: "Things are always
anging."

There's another reason for Rowan's
timism. "Eventually our international
arket will be as large as the domestic,
aybe within five years." Currently
% of Fruehauf's sales are made abroad

last year, "We have contracts with all major Japanese shipping companies. They come to us for refitting. We do it better and cheaper than in Japan. That's no bullshit."

What about the $92 million acquisition in 1973 of then $500 million (sales) Kelsey-Hayes? It gets 70% of revenues selling brakes, wheels and other original equipment to automakers. Not surprisingly, after six record years, earnings were down in 1980. What's smart about

solidated, might offer additional buying power. And, finally, there is divestiture. "We could sell every company we own today for 20 to 30 times what we paid. There are one or two that could do better with somebody else. We'd raise $100 million this way." Which ones? Rowan won't say, but Fruehauf's highly profitable aerospace operation looks to be a strong possibility.

Okay, if Fruehauf's businesses are turning around, and others are to be sold

for cash, doesn't Rowan fear a takeover? After all, Fruehauf's book value is comfortably over $43 a share, against a recent market price of 27. "We're threatened all the time," he says. "Frankly, we've had several offers from foreign companies." So serious is Rowan that Fruehauf already has a detailed defense. "We're paying retainers to Kidder, Peabody and a leading legal firm in this area."

If a public takeover bid does surface, Rowan knows that his past troubles might well be dragged through the press again. In 1975 Rowan, as president, and William Grace, as chairman, were convicted of conspiring to defraud the government of $12 million in excise taxes. Rowan had a six-month prison sentence commuted to four months' duty at Detroit's Sacred Heart Rehabilitation Center and two years' probation. He returned to run Fruehauf in May 1979. "You see, I'm really a round peg in a round hole," Rowan says fondly of his attachment to Fruehauf, which he joined 26 years ag a financial controller.

Actually, the IRS still claims $51.6 r lion from Fruehauf. It won't get it all course. Even if it did, Fruehauf would out only $30.9 million after taxes, ab $2.53 a primary share.

That's a mosquito bite. Particula when you consider Fruehauf's potent "You know," says Rowan, "we're cl to earning $10 a share than any thinks." ■

The Washington wheels are turning to give independent truckers greater freedom—to the alarm of the rest of the trucking industry.

Independence for the independents?

By Beth Brophy

I'D SAY MY PROFIT MARGINS are about 50% slimmer than when I first went into business," drawls independent trucker Richard Wagner of Odessa, Mo. He has been hauling 40,000-pound loads of meat and other freight from Liberal, Kans. to the East Coast for 20 of his 49 years. Wagner's blue Ford diesel truck cost $55,000 when he bought it last year with a 25% down payment of $13,800 and an 18% four-year loan plus his old truck. That means fixed monthly costs of $1,200 even before Wagner buys fuel, $3,000 a month; his Kansas operating plates, $133 a month; and insurance, $184 a month. Wagner says he paid taxes on $20,000 last year, and he hopes to earn a lot more if the Interstate Commerce Commission approves a rule letting him lease his truck directly to shippers.

Today Wagner has to pay 25% or more off the top to a "certified carrier"—a middleman who handles cargo insurance and paperwork and lines up customers for him. On a typical 1,500-mile trip Wagner grosses $1,275—75% of the $1,700 the shipper who hires him pays to move his goods.

Why the high fee? Because the carrier has—and he hasn't—an ICC license giving a driver authority to operate on the roads. Independent truckers like Wagner are in business for themselves. Th move the goods on their trucks while the "carrier" handles the paperwork.

The independents insist that lately things have been getting even worse. "The fixed costs of many of the common carriers that use the services of the owner-operators have not increased as fast as operating costs of the independents," says Herbert Jacob, a director of the 3,200-member Independent Drivers Association of America. Equipment costs have been escalating at 12% a year, he says. "Wagner's $55,000 truck would cost him $62,000 today. And not all independents have fixed interest rates, either. Some pay escalating rates that have climbed to 22% lately."

But Wagner's life could change drastically as a result of a proposed rule change now before the ICC—a longtime bureaucratic mother hen that recently, under its Carter-appointed chairman and staff, seems to have become an ardent champion of deregulation. The proposed rule would allow owner-operators and others not licensed by the ICC to lease their equipment with drivers directly to shippers. That could cut out the licensed carriers and their commission entirely. What's more likely, though, is that the independents' new leasing freedom would enable them to negotiate better deals with the carriers—just as onetime captive baseball players have been able to do vastly better as free agents in a competitive marketplace.

But the biggest wheels in American trucking—the Teamsters, with 500, trucking members, and the Ameri Trucking Association, which represe 17,000 trucking companies and 51 st associations—bitterly oppose change. What makes the opposit more formidable is that Reese Tay the man said to be Reagan's favorite ICC chairman, is an old ally of the Tea sters and ATA. ICC staffers are hoping drive the new rule through within next month before any new chairm slams the brakes on making the truck industry more competitive. Most of five current ICC commissioners seem favor the proposed change.

The heart of the ATA's and Tea sters' case against the proposed rule that the ICC lacks the legal authority alter the distinction between regula "for-hire carriers" and "private carrie The latter, who are exempt from regu tion, include outfits like Sears, Roebu for example, that often do their o hauling but could also contract with independent. "It would mean that th sands of for-hire carriers could oper free of regulation while competing w us regulated carriers. Every truck dri and every leasing company could b for-hire carrier, hauling anything a where," says Richard Few, president $18 million (revenues) Cooper Mo Freight of Greenville, S.C.

What's wrong with that? ask the o er-operators, who contend that increa competition results in greater efficie and lower costs. "Shippers are only g ting 50 cents of transportation out every dollar they pay now," says Wag "The rest is going to outrageous o head fees and union wages."

There are also sharp differences in effect that the new rule would have highway safety. "The ATA uses the ar ment that the independents are a bu of cowboys and need looking afte scoffs an ICC official. Says Mike Pa hurst, publisher of *Overdrive*, a truck trade magazine: "The independents h lower accident rates, more pride and more careful driving their own trucks

Given the political uncertainty of w will be the next ICC chairman, only completely safe prediction can be ma Says ATA lawyer Robert Hirsch: " are prepared to go to court." ■

How active management of international portfolios helps Morgan clients

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Some of the Morgan officers responsible for international investment strategy are shown in London. From left, Martin Harrison, Minoru Itoh, Karl Van Horn, Walter Zinsser, Charles Green.

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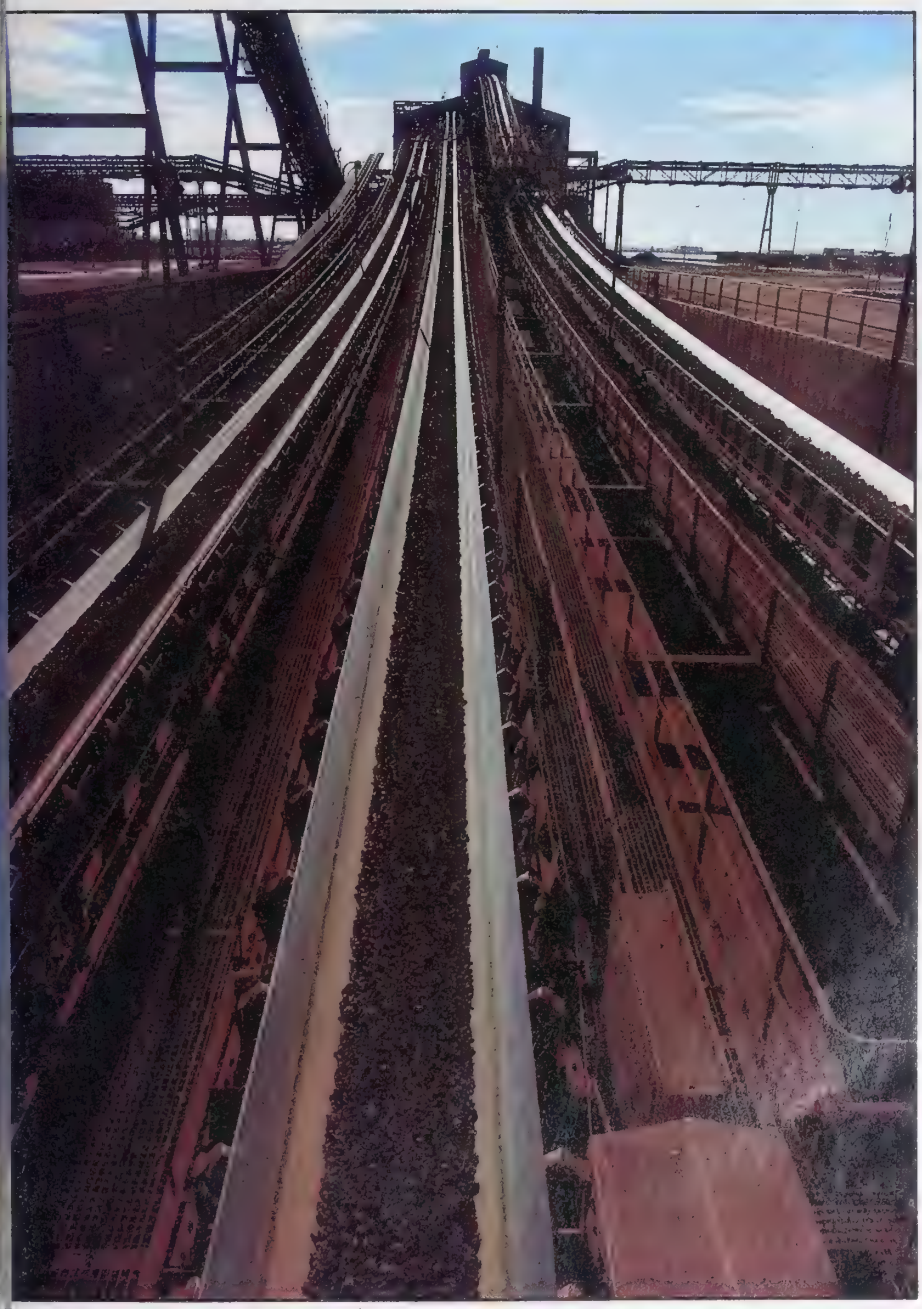
Australia's soaring minerals boom



n ore conveyor in Western Australia
st of all, elbow room to exploit their natural resources.

By James W. Michaels

WE CANNOT VOUCH for its authenticity, but a very distinguished Australian businessman recently told us this story:

Although he was christened John Malcolm Fraser, nobody ever calls Australia's Prime Minister anything but Malcolm Fraser; the "John" has long ago atrophied. But when "Big Mal," as the Aussie press calls him, visited the White House a few years back, Jimmy Carter greeted him with, "How are you, John?" It seems Carter's staff work in this case was limited to a quick perusal of the *International Who's Who*.

Not many leading U.S. businessmen would have made the same mistake. For literally hundreds of them, the 7,300-mile commute to Down Under has become an exhaustingly familiar one and Big Mal a refreshing kind of politician. In fact, these businessmen—usually in partnership with local capital—are pouring so many billions into Australian natural resource development that they dwarf the takeover bids by oil companies in the U.S. for mining companies like AMAX and Kennecott. In a resource-short future, an Australian coal, copper or uranium mine may be a priceless asset.

You need a few simple facts about Australia to understand why:

Imagine a United States with just 10 million people living on a narrow strip along the East Coast from Boston to Florida, a million in the South around New Orleans and a scant million more on the West Coast. There are also outposts in St. Louis and Chicago. The rest of the country is almost empty. That describes Australia. A continent almost as big as the U.S., it has only one-sixteenth the population—just 14 million people.

The reasons that kept most of Australia empty and unexploited were valid in the 19th century and well into the 20th: Virtually the whole center is barren, arid, bleak. The Outback is still as foreboding for habitation, but the reasons for its remaining unexploited are no longer valid. Under that arid bleakness lies a treasure trove of minerals, within reach of an advanced, educated populace willing to work for the high wages offered them.

Numbers can be boring, so a few brush strokes will suffice. Under this reddish-brown moonscape lie a fifth of the world's uranium, estimated coal reserves sufficient to meet current world demand for 56 years and more iron ore than Japan could use for the next 1,000 years.

Best of all, Australia has the elbow-room to exploit its wealth. Sir Gordon Jenkins is a thoughtful man who heads CSR Ltd., one of Australia's new billion-dollar natural resource companies. Says he: "Lots of countries have minerals but Australia has the land, the water, the environment, to develop them." He

means that in those wide-open spaces, pollution is less of a problem than it is in the crowded U.S. or Western Europe. The bulldozers that strip the soil to bare the riches beneath are hardly destroying natural beauty. They need disturb no one. Australia can exploit her mineral wealth and still have recreational space and unspoiled landscapes to spare.

All this has not been lost on the world's investors either. Since 1974 huge amounts of foreign capital have flooded into Australia, growing from under $500 million in 1974 to $3.6 billion last year.

Oil companies pay huge premiums over market value to acquire mining companies. Seagram offered $2 billion for St. Joe Minerals, a staggering 17 times earnings. In mining and minerals processing, however, these are no longer extravagant sums. In the last five years alone, U.S. corporate, institutional and private investors have poured $4 billion into Australia. It's no secret General Electric's $2 billion takeover of Utah Mining—until recently the biggest such deal in history—was motivated in large part by Utah's huge holdings of Australian coal. Had it not been for its bold and pioneering backing of the Hammersley iron ore project in Western Australia in the mid-Sixties, Kaiser Steel might today be bankrupt; its solvency owes much to the sell-off, at a hugh profit, of its Hammersley holdings.

Consider a few of the numbers involved in the Australian mining boom. Close to $40 billion is already committed to natural resource development in the first half of the 1980s. The biggest single piece of this, about $10 billion, is earmarked for coal, considerably more than will be spent in the U.S. on coal development in the next four years.

Unlike the situation in many other countries, energy isn't a problem in developing those raw materials. Australia produces 60% of its oil and has so much coal and uranium that, overall, it is likely to become a net energy exporter.

How much coal can 14 million people use? How much aluminum? Not a great deal. But Japan is hungry for resources and so is the rest of the world. Australia already exports huge amounts of coal to Japan and alumina to the U.S.

Do Australians resent all this foreign presence, all this churning up of the Outback? To a degree, inevitably, but the blow is greatly softened by the increasing partnership of local capital under guidelines that suggest at least 50% of the equity in most new natural resource projects be in Australian hands.

These guidelines are not the barrier they might be in less-developed countries: Australia is rich now and has a high savings rate. There is a growing—however slowly—pool of skilled Australian management personnel. The growth of the local capital markets has given Australians a new confidence that they can deal with foreign investment as equals. Turnover on the Sydney and Melbourne stock exchanges, which dragged along at maybe $6 million a day a half decade ago, now often hits $60 million a day. In February, Broken Hill Proprietary, Australia's huge oil, steel and iron conglomerate, successfully floated a rights offering that was huge even by U.S. standards—nearly $400 million.

Loading coal for export in Queensland
In a natural-resource future, almost priceless assets.

Timid and undercapitalized until a few years ago, Australia's businesses and businessmen are now flexing their muscles. The mining giant Conzinc Riotinto of Australia (CRA) is superbly managed by any standard and so are many of the other mining conglomerates. Australian businessmen are becoming a factor on the international scene. Newspaper mogul Rupert Murdoch is the best known, but he is not alone. Sir Peter Abeles, the dynamic boss of Australia's TNT transport company, has made acquisitions in the U.S. and so has Australia's exceedingly well managed building and real estate outfit, Lend-Lease, which is involved in a California land development.

The Australian stock market turned weak early this year: The decline in the price of gold hurt. So did the attraction for international money of high interest rates in the U.S. Viewed in perspective, however, this was only an interruption in a powerful bull market that carried the Sydney All Ordinaries composite stock index from 260 in early 1976 to as high as 776 in 1980. British investors, active on the Australian scene, he fuel the boom. Americans, relative r comers as portfolio investors here, c in small but increasing numbers. T was also Arab money, and Asian mo of all kinds.

Already some of the local compa have become American-size. Broken Proprietary, traded in the U.S. thro American Depository Receipts, 170,000 stockholders and a market italization of nearly $5 billion. Sir Ro ick Carnegie's CRA is well over $2 lion. There are already eight Austra companies with a market value o billion or better.

And yet, less than a decade ago, A tralia came close to blowing the w thing. After 21 years out of power Labor Party won in 1972, led by Go Whitlam, a pretentious man utterly i rant of economics. Whitlam annou he was going to build a new Australia make business pay for it. He was goin stop the "despoliation" of Austra hinterland by foreign investors. Au lians were going to "buy back the fa After boosting government outlays nearly half in one wild spendthrift y pushing the inflation rate to 17%, al shutting down the mineral boom playing footsie with a shady chara who promised an international loan c billion, Whitlam was booted into v deserved obscurity in 1975. A relati conservative government came in, h ed by Malcolm Fraser and has rema in power through three elections.

Can Australia blow it again? It's impossible. The election results are ally fairly close and the Labor Party h radical fringe dedicated to banning u um development and ousting foreig vestors. Many of the intellectuals op yearn for the days of Gough Whitlam

Out of power, the Labor Party t moderation. The Labor Premier of N South Wales, an attractive politi named Neville Wran, is working har bring billions of dollars' worth of alu num plants to depressed areas of state. Says Wran: "Talk about gov ment ownership is a one-way ticke political oblivion in this country." there is no doubt that a Labor gov ment would reverse the present t toward less government spending.

Even Bob Hawke, Labor's brilliant popular shadow minister of industria lations in parliament, speaks of spen much more heavily on foreign aid means of playing a bigger role in So east Asia. There can be no doubt th Labor government would pour m money into the public sector. This c result in either higher inflation or creased taxes, or both, in a nation w the top tax bracket is 60% for that g income above $34,478 (Austral Higher inflation and higher taxes

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would spell trouble for the mining boom.

Nevertheless, the present middle-of-the-road government is by no means certain to stay in power. Painfully, and using measures that are not always popular, it has cut taxes, reduced government spending and brought inflation down to relatively low levels. But thanks to the mining boom, there are serious shortages of skilled labor, and the danger of speeded-up wage inflation hangs heavy. In some remote mining areas, skilled workers make close to $50,000 (Australian) a year. If that kind of wage inflation spills into the more populated areas, look out! But how do you persuade people to exercise wage restraint when their country is in the grip of a great mining boom?

Another drawback to the development of all this wealth is the Australian character itself. "Arrogant" is the all-purpose word in Australia for any person who gets ahead too fast or distinguishes himself or herself from the crowd—a legacy perhaps of Australia's convict past and its long-vanished frontier traditions. The term is applied equally to Prime Min Fraser and some of his prospectiv placements, including Laborite Hawke, a onetime Rhodes scholar.

Australians themselves speak of "great Australian sloth." This is n say that Australians are lazy, but li relatively easy here. The beaches close to the cities and uncrowded. climate is mild along the coasts. Kee up with the Joneses American-style never really caught on. The work eth not weak, is hardly urgent. The Ar

Down under, how to buy in

Says Don Gimbel, Kidder, Peabody's vice president covering Australia and New Zealand: "I spend most of my time telling people not to buy blindly in Australia and to stay with quality." Below are listed some of Australia's largest enterprises. Because they are regarded as growth stocks, the natural resource companies command the highest P/E ratios; there, as here, banks rate the lowest. Nine of Australia's ten largest companies are in natural resources.

Besides Kidder, several other U.S. brokers deal in Australian securities, among them Salomon Brothers and Merrill Lynch. Your Aussie stock is kept in a custodian account in an Australian bank, but, if you want to take physical delivery, you must go by way of American Depositor Receipts, which carry slight fees upon purchase, sale an dividend disbursement. Australia levies a 15% withholdin tax on dividends, but that can be offset against U.S. taxe Some 27 Australian companies traded on the Sydney ex change can be followed in the *New York Times*.

One of the best sources for information is the Australia Consulate-General library, 636 Fifth Avenue, New York N.Y. 10111, which carries background information on lead ing Australian companies. Other Australian governmen offices are located in Washington, San Francisco, Chicag Los Angeles and Honolulu.—Jeff Blyskal

Rank	Company/business	Market capital (mil)*	Recent stock price*	1980-81 high-low*	Market price/book value	Price/earnings ratio	Divide yield %
20 largest natural resource companies in Australia							
1	• **Broken Hill Proprietary**/iron, steel, oil	$4,715	$15.97	$20.59–$13.34	1.2	7.8	3.0%
2	**Conzinc Riotinto of Australia**/mining	2,195	5.38	8.31–5.09	1.4	10.8	4.1
3	• **MIM Holdings**/mining	2,095	4.68	6.97–3.51	3.0	12.8	5.0
4	• **CSR**/mining, chemicals, sugar	1,974	7.61	9.36–5.09	1.7	15.4	2.8
5	• **Western Mining Corp**/mining	1,419	5.52	7.96–4.10	3.5	21.3	3.0
6	**Comalco**/aluminum	1,227	6.55	7.28–4.62	1.5	13.9	2.6
7	• **Woodside Petroleum**/oil and gas	1,219	3.04	4.56–1.99	NA	NM	0.0
8	• **Santos**/oil and gas	1,049	20.48	22.58–6.67	NA	91.0	0.6
9	**Energy Resources Australia**/uranium	876	2.15	3.51–2.11	NA	NM	0.0
10	**Hamersley Holdings**/iron ore	853	3.51	5.50–3.45	2.5	12.2	5.3
11	**Bougainville Copper**/copper	734	1.83	3.66–1.70	1.6	6.7	13.7
12	• **Southern Pacific Petroleum**/oil and gas	572	2.43	5.03–1.23	NA	NM	0.0
13	**North Broken Hill**/mining, oil, gas	538	3.69	5.21–3.22	1.5	9.4	5.7
14	• **Peko Wallsend**/coal and minerals	522	9.10	14.98–7.72	1.9	9.5	2.9
15	• **Central Pacific Minerals**/oil & min prspctng	495	5.97	13.69–3.16	NA	NM	0.0
16	• **Boral**/quarrying	485	4.10	4.21–2.08	1.3	11.8	3.6
17	**EZ Industries**/lead, zinc	479	6.32	9.95–5.73	2.0	11.1	7.4
18	**Coal and Allied**/coal	427	15.21	17.08–8.31	3.8	200.6	1.5
19	**Ampol Petroleum**/oil and gas	417	2.04	2.41–1.11	1.5	11.6	4.3
20	**BH South**/copper	339	6.08	6.44–4.68	1.3	47.6	1.5
10 largest Australian companies in manufacturing and retailing							
1	• **GJ Coles**/retailing	580	2.88	2.93–1.92	1.6	9.3	6.1
2	**ICI**/chemical products	484	2.61	3.42–2.12	0.8	6.2	6.7
3	**Pioneer Concrete**/quarry products	478	2.69	3.10–1.85	1.9	13.0	4.3
4	• **Australian Paper Mfrs**/paper products	424	2.63	2.71–1.70	1.2	7.5	6.7
5	• **Meyer Emporium**/retailing	387	2.08	2.11–1.58	0.7	9.8	5.9
6	**Woolworths**/retailing	334	2.29	2.32–1.65	1.3	7.7	6.6
7	**Carlton United Breweries**/brewing	325	2.63	2.71–1.88	1.2	9.9	6.2
8	**James Hardie**/building materials	311	4.75	5.09–3.03	0.8	9.2	4.9
9	**Castlemaine Tooheys**/brewing	276	4.10	4.45–3.33	1.0	7.9	5.7
10	**Dunlop Olympic**/tires and rubber	253	1.31	1.64–0.82	1.0	6.2	7.1
5 largest Australian banks							
1	• **ANZ Bank Group**	913	5.27	5.32–3.84	0.8	5.7	5.3
2	• **Bank of New South Wales**	841	3.57	4.10–3.16	0.8	5.8	5.9
3	• **National Bank**	524	3.51	3.51–2.71	0.9	5.9	6.0
4	• **Commercial Bank of Australia**	244	3.63	3.15–2.48	0.8	5.4	6.5
5	• **Commercial Banking Co of Sydney**	215	3.98	3.55–2.40	0.9	4.8	6.5

Note: All data as of Feb. 28, 1981. •Available in American Depository Receipts. *U.S. dollars NA: Not available. NM Not meaningful.

Source: The *(Australian)* National Times

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Choice of Vegetables

SALADE DE SAISON
Salad in Season

ASSORTIMENT DE FROMAGES
Cheese-Tray

CORBEILLE DE FRUITS
Assorted Fruits

SORBET AU CITRON — *Lemon Sherbet*
TOURTE SACHER — *Viennese Chocolate Torte*

CAFE LIQUEURS
Coffee and Liqueurs

PRALINES
Swiss Chocolate Candies

can term is "laid back." This helps contribute to a certain irresponsibility when it comes to strikes. "Unfortunately," says an Australian businessman, "the strike tends to be the first weapon labor uses here, not the last as in the U.S. and elsewhere." Accustomed to an all-encompassing welfare state, the electorate tends to resent the cutbacks in social spending the Fraser government has made. Like all industrial nations, Australia suffers from growing unemployment among the young for which the government in power tends to get blamed. The trouble is that the mining and processing of raw materials provides jobs for skilled workers, not for untrained kids.

Australia, in short, has problems, and if they may not look like problems to people in poorer countries, they still present a tough challenge to Australia's businessmen and politicians. "The big question here," concedes Industrial Relations Minister and former Foreign Minister Andrew Peacock, "is: Will any government be able to handle the effects of the resources boom?"

On the positive side, the Australian people are becoming increasingly middle class and increasingly skeptical of political rhetoric. The opposition, or at least its moderate wing, understands that Australia needs foreign investment if it is to have those two cars in every garage. A Sydney taxi driver, an emigrant from union-cursed Britain, says, "The family comes first with the Australian workingman, not his union. He wants to know what's in the pay packet, not what it is the union leaders want." Andrew Peacock points out that the consequences of Trudeau's antibusiness policies in Canada have not been lost on the Australians; Trudeau has paid a fearful price in a capital flight from Canada *(see p. 35)* that can only result in growing unemployment.

So what should an investor make of all this? The bottom line for American businessmen and investors is that Australia is too good an opportunity to pass by. But remember, Australia is not the U.S.

Sir Arvi Parbo, one of Australia's leading industrialists, brings an unusual perspective to the scene. A native of Estonia, he came to Australia as a refugee after World War II and worked up from the bottom to the chairmanship of Western Mining Corp., a front-runner in the minerals boom. We asked Parbo what advice he had for American businessmen and investors. He replied: "Tell them not to be overoptimistic and above all not be in too much of a hurry. We can't rush headlong into mineral development. We have to persuade the man in the street that there's something in it for him."

Sound advice. But is the man in the street getting the message? We put *that* question to Prime Minister Malcolm Fraser in the interview that follows. ■

How Australia cut taxes, reduced both infla tion and the federal deficit and reopened it doors to foreign investment.

An interview with Australian Prime Minister Fraser

THE LEADER OF THE conservative Liberal-National Country Party coalition is Prime Minister Malcolm Fraser, 50. Raised on a sheep ranch, he was educated at Oxford University and so combines a farmer's practicality with an intellectual's broader vision.

Yet he has problems. Tall, distinguished-looking but aloof, almost shy, Fraser has none of the "matey-ness" that Australians profess to find attractive. He walks a difficult line in espousing free-enterprise policies in a nation that has traditionally been suspicious of wealth and accustomed to the welfare state.

Fraser was interviewed in Canberra recently by FORBES President Malcolm S. Forbes Jr. and Editor James W. Michaels. Highlights of the interview follows:

Prime Minister Malcolm Fraser
"My opponents are damned lucky I'm not popular."

FORBES: Your party is committed to free-enterprise policies, but the Liberals may not be in power forever. What can you say to foreign investors who were burned once before when your predecessor Labor government turned hostile to foreign investment? It was the same old story: Investment comes in under one set of rules and then finds that the rules are abruptly changed unilaterally.

Fraser: Remember we have had three of the largest majorities in the history of Australia, one after the other. Australians have learned a great deal from those years [of hostility toward foreign investment under Labor]. Our people would n have any of those policies again. Th were deceived before; they were n warned that government expenditur would go up 46% in one year. It w madness compounded on madnes There is no way our people would back to that.

Remember that we went into the 19 election with a pretty courageous o pricing policy in a country where di tances are large—where one or two m

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So thoroughly impressive is the total result that one otherwise conservative automotive journalist was moved to write of the 733i, "...to drive it is to know all the wonderful things machines can do for man."

If you find the notion of owning such a car intriguing, we suggest you phone your nearest BMW dealer and arrange a thorough test drive.

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r-cars per family is common—and we d a [decontrol] policy and stuck to it. ur political opponents thought this was ing to be a bonanza. They offered eaper petrol and yet we won. When u ask: "Is there a chance of the past peating?" I say we have done a number things over the last five years that ve been pretty unpopular in terms of e normal conception of how you win tes. We have not deviated from those licies [of oil decontrol and cutting government spending] because we believe can explain to the Australian people at the policies are right and have orked.

Your government inherited a situation of most runaway inflation in 1975. There re huge federal deficits. You had tax-icket creep that had become almost con-atory. Coming from a country that is also ncerned with such problems, we'd be in-ested in hearing how you brought all this der control.

Fraser: We reduced income taxation a at deal. But we have had to cut taxes thin an overall context of moving adily to balance the budget. We have luced the deficit from upwards of 5% our gross national product [the current ure in the U.S. is about 2%]. We did it containing expenditure, reducing pub-service employment by 10,000 people der what it was five or six years ago. may be the only government in the rld that has achieved and maintained tbacks of that relative size]. The re-ctions would have been much greater rall except that there were offsetting creases we could not avoid. We have an ler population, so that means more ple are drawing pensions every year. Australia we have, I think, made up r minds that we cannot live in the ver-never and we cannot pay next de-le what we spend today. It just works in inflation.

had no particular pleasure in winning et I once had with Arthur Burns that would get Australia's inflation rate ow that of the U.S. And we did. ortly before the interview it was an-nced that Australia's rate was down 9.3%, while in the U.S. inflation was ning at 13.5%.]

ut policies that seem to favor business fight inflation leave any government nerable to attacks from the Left that you favoring the rich or foreigners.

Fraser: I believe that people are be-ning thoroughly skeptical of politi-ns' promises because they realize t it's their taxes that pay for those mises. It is possible to show that, if iness can make a profit, then we l get the resources necessary to pay schools and environmental things, look after national parks, to build ds, to pay for defense.

hen FORBES *last wrote about Australia—1974—there was much talk under the Labor government about "buying back the farm." That is, getting rid of foreign investment. Now foreign investment seems to be flourishing again and people are accepting the fact.*

Fraser: We have an objective of 50% Australian equity ownership in resource projects; increasingly we will be able to meet that objective. But we have also said we do not want important projects held up if there is a shortage of Australian capital. There is no way the Australian capital markets can find all the money that is going to be needed. For a long time Australia is going to have to be a capital-importing country.

Beyond equity ownership we have to show that the benefits from the increased wealth go not only to the companies or the people immediately employed [in mining]. We are looking for more processing [of minerals] in Australia. This is already happening, particularly in the aluminium area. This probably suits other economies because transportation costs have gotten so high for bulk commodities.

"In Australia we have made up our minds that we cannot live in the never-never and we cannot pay next decade what we spend today. It just works out in inflation."

To turn to another topic, in a world where the U.S. hasn't been getting much support from its allies, Australia has stood out as a friend under your administration. Why?

Fraser: The position of the U.S. is important to all free peoples. We have various joint bases in this country. We have offered transit or staging facilities for B-52s. There is also what we can do on our own account in our own region—whether it is economic or diplomatic relations with the ASEAN [Association of South East Asian Nations] countries, or surveillance and patrolling of the Indian Ocean. There is a good deal of consultation between us and the U.S.

We have been outspoken in support of what the U.S. has been trying to do on a number of issues. Sometimes journalists have asked, "Why bother? You're a nation of only 14 million people." But we think the U.S. is right on important issues that are important to us.

One more question: So much depends upon a continuation of power of a Liberal government and yet, frankly, there are a good many people who say that Malcolm Fraser is a cold man, that he is not a popular leader.

Fraser: All I can say of my political opponents is that they are damned lucky I am not a popular leader because, if I were, they would not have a seat left in Parliament. ■

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From Congress' deposed tax czar, this curious criticism: The Reagan, Stockman & Co. tax cuts aren't business-oriented enough.

A chat with Wilbur Mills

"This is strange coming from me"

By Newcomb Stillwell

WHEN I GO UP to Treasury these days I have to ask 'em, instead of tell 'em," says Wilbur Mills, from 1958 to 1974 chairman of the House Ways & Means Committee, now tax counsel in the Washington office of New York lawyers Shea & Gould. A fearsome growl, a sly wink. "I don't know that they listen like they used to."

But when FORBES came calling last month, the 71-year-old "chairman" (as his legal colleagues unfailingly address him still), fully recovered from a problem with the sauce and a saucy stripper named Fanne Foxe, had more on his mind than his newfound legal practice and weekend temperance lectures. In short, tax policy. Like most of his Democratic colleagues in the House, he's leery of a tax cut for individuals right now.

"Ninety percent of what folks get back in way of reduction isn't saved, it's spent," he says, shaking his head. "That's inflationary, and the electorate knows it. They always were smarter than anybody thinks. What we've got to do is make American industry more productive, and you do that with selective reductions—depreciation, though 10-5-3 has some problems, marginal rates, that stuff—so business can have more equity capital. I mean, for years we had a 27.5% depletion allowance; now we've got a windfall-profits tax, and we're begging people to drill. If we don't make some changes, I can foresee whole segments of industry with the same problems the automobile people have. And some want to go beyond temporary import res tions—which would help—back Smoot-Hawley-type tariffs. Th caused the Depression, and could d again. Oh sure, they could do it agair

Er, ah, what about the Kennedy cuts? "The difference is inflation n and no inflation then. I mean we *wa* to get us some inflation back then. volcanic laugh. "No, there's no quest but that they worked, set the econc on fire. Of course, compared to the G our cuts were a lot bigger. But we m Kennedy commit on holding the buc to $98 billion in fiscal 1964—think that, a $98 billion budget—to keep in tion down. Even then we had to cal tax 'reform' instead of 'reduction' so European bankers wouldn't get all w ried, start a run on our gold or someth And it was only Vietnam kept us fro balanced budget before 1969. Th what caused this inflation, and Ni could've stopped it dead if he'd lister Told me he was a tax lawyer." Sm "All he did up in New York was s bond papers. Never would look you in eye, just your eyebrows, or your mou The oil thing would've caused some flation by itself, no doubt about that, the government started it. I mean, is inflation as bad as 12%?"

It's not that the chairman is agai individual tax cuts, mind you, it's j that he thinks Congress should e them with a couple years of budget c first. "This is strange coming from r maybe, but I don't think Reagan's asl for enough cut. The government's ou control, not a doubt about it. I'd h asked for $60 billion if I wanted to $48 billion cut. Everybody's going to saying they can't render services unl they get exactly what they want. goodness, I never knew when *that* v true. I expect the members'll give Rea most of what he wants, though, exc they'll probably go slow on individ taxes, like they should."

The phone rings, from Arkansas. vice on the local Home Loan Ba Board. Complaints of how a friend's pointment supported by Reagan peo got headed off by Bush. "George was the committee with me. Real frien fellow." Questions about folks ba home. "Why, Polly's fine, thank you, s spending money like she was married a Kennedy." Back to business.

"Reagan's going to get cooperati like Eisenhower did because he's on t right track, least as far as spending concerned. And you don't go down history as a great President withc somebody cooperating with you. This evident from some of his predecesso problems. Reagan's close to Roosevelt his ability to electrify people, a treme dous salesman. And the situation tod is as dangerous as the one Roosev faced. I really believe it. Reagan's or

Wilbur Mills in his Washington law office
"Another thing I'd change, indexing benefits."

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problem is all the reforms in Congress. And I voted for 'em, every one. Didn't do a thing but slow down the whole process. But he's done a magnificent job with the leadership on both sides. Of course, there's more chiefs than Indians now. When Joe Cannon was speaker, he could *tell* a president what was going to pass."

Of course, *after* government spending is down the chairman is itching to see a Kennedy-style personal income tax cut. "I don't think the federal government should ever be more than a 50-50 partner with you and your pocketbook. It tends to reduce the incentive of the individual; there has to be a reward for effort, and we measure it by dollars. It's not an easy road if you earn a lot of money. You don't enjoy the things people who don't earn it think you do. I've always felt this way." Grin. "Even though it's only since I've been in the private sector that I've been much of a participant in high income. I wanted to get unearned income down to 50% when we pulled earned income down, but didn't because I got scared we'd lose 'em both."

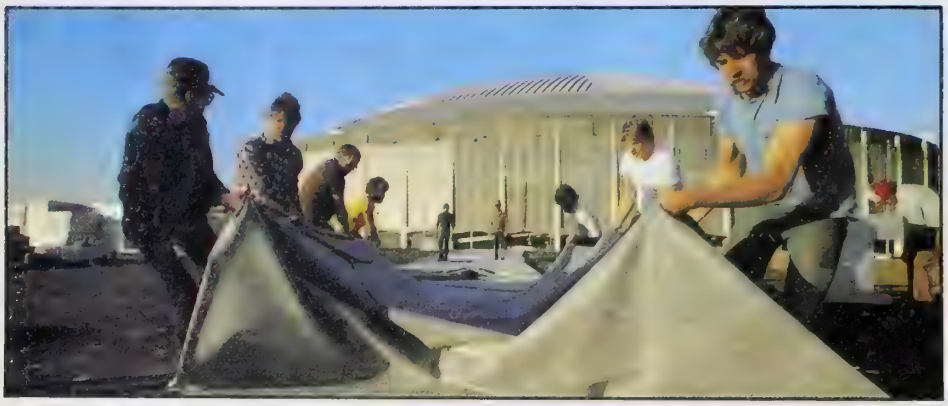
Clenching a cigarette in his teeth like a little white cigar, Mills leans forward at his desk. "Another thing I'd change—indexing benefits. Never did see the need; we did a pretty good job increasing benefits without it. Always voted against it, gets your financing out of balance. Look at Social Security; that's not a General Fund responsibility. Health, retirement, the taxpayer should be willing to pay for them honestly, if he's to enjoy them."

How is Mills enjoying his retirement? "Lawyers don't retire, politicians do," he shoots back. Again, a conspiratorial wink. "I just live a quiet life, working to make a living during the week, talking about alcohol and drugs on the wee It's a problem, alcohol." An acc look. "Particularly among young peo

Quiet? "Yes, I never much liked licity, the good or the bad. I'm not b though. Wouldn't change anythin ways wanted to go to Congress, g Ways & Means. The photographe low, took my picture at the Tidal that night—I got reelected after that know, folks always forgive you quic you forgive yourself—he said on T didn't know whether he destroyed bur Mills or saved his life. He saved

The intercom buzzes. "Now, y fellow, I got to get to a meeting." on elbow. "You give my best to you Forbes. We always got along, excep time he lit into me for going yachts." *(Editor's note: MSF's efforts u no avail. Today yachts are no longe ductible for business uses.)* ■

Workmen installing Carlisle's Sure-Seal single-ply roof on Houston's Astrohall



The tire business these days is flat, flat, flat. But that doesn't faze Carlisle Corp. It's found a new growth market in a prosaic old business.

Where the rubber meets the roof

By Steven Flax

SAYING THAT THE TIRE BUSINESS is flat won't get you much of an argument these days, even in downtown Akron. With the U.S. industry running at roughly 80% of capacity, big, original-equipment mastodons like Goodyear and Firestone were, until recently, slashing prices and are feeling profit pains as a result. So where does that leave a small supplier like Cincinnati's Carlisle Corporation, which had sales of less than $400 million last year?

Doing very nicely, thank you. Carlisle's net earnings for 1980 were nearly $26 million, a 38% improvement over 1979, at a time when most competitors were cutting dividends and showing deficits. And despite all that industry price-cutting, Carlisle was able to raise its return on sales from 5.8% to 6.8%—earning a full cent more on each sales dollar during a recession. While Wall Street hissed at the rubber companies, lisle's stock soared.

So why is Carlisle, which also roofing materials to the constructio dustry, doing so well when it was bered in the last two recessions? reason is an entirely new strategy. key," says Chairman George Dixo West Point graduate and former mil engineer, "is not to get trampled by elephants."

That means that Carlisle has not to do with automobile tires. "It's a nibalistic type of industry," says Ro Brown, president of the Carlisle Ti Rubber Company. "Because of the mous leverage of the original equipm market, the big companies stoppe ing profit-oriented." Brown sh know. He came to Carlisle in 1978 Firestone where, as executive vice p dent of Firestone, Canada, he was o the first executives to tell manager that they had to shut down a plan that organization Brown was consid a maverick.

As a result of Carlisle's new strate now sells half its products to the rep ment markets, where margins are h er. What's more, Carlisle concentr on specialty items like tires for sn blowers and for garden tractors.

Carlisle's tire business, then, sound—but hardly exciting. Its real e ings zip comes from roofing, where company's Sure-Seal brand is a runa bestseller. Over the past five years, lisle's construction materials sales h increased at a compounded annual ra about 75%. Last year sales of its sin ply rubber roofing system jumped 8 more than making up for declines at er divisions. Construction mate alone contributed 43% of total corpo profits.

Carlisle's bonanza comes from a r lutionary product in a big, but ha

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morous, market. Single-ply roofs use a ather-tight rubber or plastic mem-ne instead of the layers of felt and phalt that comprise the familiar built-roofing on flat buildings. As the mate-ls and workmanship on those conven-nal roofs have deteriorated, they have rted leaking market share to single-products. Last year, for example, sin-ply systems went from 6% to 11% of 2.4 billion-square-foot commercial industrial roofing market.

While Carlisle is the leader, with 40% the business, its success has already racted a horde of competitors. Big npanies like General Tire, B.F. Good-h and Firestone have begun marketing ir own single-ply products. Isn't this sort of elephant stampede Carlisle s trying to avoid? Not at all, says sident Malcolm Myers, who has or-estrated the company's diversification ategy. "When it comes to single-ply fing, we're the giants."

To back up that claim, Carlisle has ned a new, 160,000-square-foot plant Greenville, Ill., which is entirely de-ed to making its single-ply sheeting. as also loaded that and another plant Carlisle, Penna. with specially de-ned machines to automate the pro-tion of 40-foot by 100-foot and larger ets of membrane. Furthermore, its pertise may be hard to duplicate quick-"The EPDM rubber polymer we use for these roofs is squirmy stuff, and hard to work with," says Brown. "Even a big rubber company can't just dump it into their machines and start turning out sheets like ours." In addition, these large rubber sheets have to be sealed with cold, unvulcanized seams on the job site. Carlisle believes that its adhesives, developed after years of research and development, will give its roofs a continuing edge in performance.

Carlisle's executives are also counting on their marketing strategy to keep them ahead of the pack. Unlike many competitors, which now market rubber sheeting as they sell rolls of asphalt, Carlisle provides contractors a complete, engineered roofing system. Besides the membrane, its package includes all the pipe seals, flashing, metal fasteners and edging—a little like IBM's data-processing services before unbundling. "Most potential competitors are getting a limited quantity of product onto the market to demonstrate that it is durable and installs easily," says Laurence Hirschhorn, an analyst at First Boston. "Meanwhile, Carlisle has the brand name, the available capacity and the economies of scale."

Carlisle is also running its own school of single-ply roofology. All appliers of its system have to pass the curriculum and then have their field installations supervised and approved by a company technical representative. Then Carlisle guarantees the roof against leaks. "The Sure-Seal roof has turned out to be a tremendous selling point for building owners and reroofers," says David Walters, vice president of Nicholson & Galloway, a 132-year-old roofing concern from Glen Head, N.Y. "Roofing, unlike a car or a refrigerator, has to last for 20 years or more. Track record is important in this business, and Carlisle has it. Also, for me, it means not having to haul explosive gas tanks and hot kettles up to the roof of some high rise."

"The Sure-Seal roof has turned out to be a tremendous selling point to building owners and reroofers. Unlike a car or a refrigerator, roofing has to last for 20 years or more. Track record is important in this business, and Carlisle has it. Also, for contractors who do the installations, it means not having to haul explosive gas tanks and hot kettles up some high rise."

So far none of Carlisle's competitors have made a big move to install roofing material production lines. Analysts assume that Sure-Seal won't face a serious threat for at least two or three years, and even then the large competitors may only equal what Carlisle has now. Still, none of this is encouraging Malcolm Myers to sit contentedly on his $80 million roofing backlog. "They've got a lot of problems," he says, "but by a like token there must be a desperate need there to get into the product lines that produce good earnings."

Carlisle is doing that, too—by getting into other lucrative niches in replacement markets. It has gone head-to-head across the whole range of motorcycle tires, for example, but it also specializes in dirt-bike tires for racing. After establishing a reputation for high performance on the dirt-bike racing circuit, Carlisle's motorcycle tires and tubes achieved a 55% sales increase in 1980, even though it was a bad year overall for their recreational-tire segment.

Such aggressiveness has provided more than hot air for investors. Last year, Carlisle's stock price soared from nearly 19 to 85½ in an exhilarating runup that startled management. Today the company commands a premium 16 earnings multiple at a time when the big tire companies are limping along at average market levels or below.

What have Akron's giants done while Carlisle has made millions from single-ply roofing? For the most part, they have only watched—and not, one assumes, without a tinge of jealousy. ■

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Apathetic about foreign trade in the past, many small businessmen are finding sales, profits and even fun in foreign markets.

Exporting without tears

By Larry Marion

FIRST, THE EMBARRASSING NEWS. More than a third of the $32 billion U.S. trade deficit in 1980 may have been unnecessary. If U.S. companies had been more alert to opportunities for sales abroad, the Commerce Department estimates, they could have added at least $13 billion to our $175 billion in merchandise exports.

Furthermore, Professor Warren J. Bilkey of the University of Wisconsin's business school has found that the majority of our overseas sales originate not with a salesman's call but with a request from a foreign buyer. "In fact," says Frank Weil, who has just finished three wearying years as assistant secretary of Commerce, "many American companies don't have time to respond to foreign requests for information." They say they're too busy with the tremendous domestic market, traditionally the sole focus of U.S. manufacturing companies.

But now, the good news. There are clear signs that old attitudes are changing. Last year 20% of the nation's manufacturing output was exported, compared with 14% in 1970. The U.S. share of world trade has begun to climb—to 18.4% by mid-1980, *vs.* 17% in 1978. Significantly, it is the small companies that are most aggressive in going after sales abroad. Companies with 249 or fewer employees export 11.5% of their output, compared with 9.5% for firms with 1,000 or more employees. The potential is enormous; Commerce estimates that only some 30,000 of our 252,000 manufacturing firms have ever exported.

And it is just those small exporters that the Reagan Administration proposes to help. Secretary of Commerce Malcolm Baldrige says export promotions will be redeployed to benefit more small companies. The Export-Import Bank's funding will be cut—because Reaganites believe the bank mainly helps large companies that have alternative sources of finance. But the Administration is supporting a bill now in Congress to bring more commercial bank fina ing to small exporters.

Most heartening of all is that sn businessmen themselves say they d need more government programs, better performance from some of the isting ones.

"The government doesn't have to more. Just educate people about h easy and lucrative exporting can b says Larry Burns, vice president Breuer Electric, a $12 million (sales) C cago company that exports indust vacuum cleaners to Europe.

"Don't give us more rules," says V President Charles McKinney of Di Furniture in Lexington, N.C. "What Commerce people need to do is get i the field and help the little guys with nuts and bolts of exporting."

Steven Pitchersky of Dunning Ind tries in Greensboro, N.C. charges that present, "The government isn't do much of anything to help us."

Burns, McKinney and Pitchersky just a few of the many businessmen w have found sales, profits and even a lit fun in exporting. American compan are selling pre-Victorian furniture to B ons, snowplows in Saudi Arabia and el tronics in Taiwan. Sometimes the fed al government is helpful, other times a pain; but perseverance a commitment are the real k to success, say dozens of bu nessmen who were contac by FORBES. Here is a sampler what some awakened Am cans are accomplishing.

Making lamps at Dunning Industries' Greensboro, N.C. plant ***U.S. furnishings for Japanese and European homes.***

Using government wisely

Joel A. Elftmann, an export-c scious former overseas mark ing representative, read a nev paper ad in 1974 about a feder ly subsidized program t insured payment of receivab from overseas customers, a saw his chance. He was founder and vice president FSI Corp., at that time a mi mally capitalized manufactu of semiconductor processi equipment, doing $1.2 milli in annual sales but suffering the 1974 recession. Insured ceivables, Elftmann realiz could be collateral for low-c working capital. He answer the ad, got a Foreign Credit surance Association policy a began hurrying over to Min apolis' Northwestern Nation Bank as soon as he shipp equipment overseas. There would swap his invoice for below-prime-rate loan and i mediate cash.

Only 201 small business

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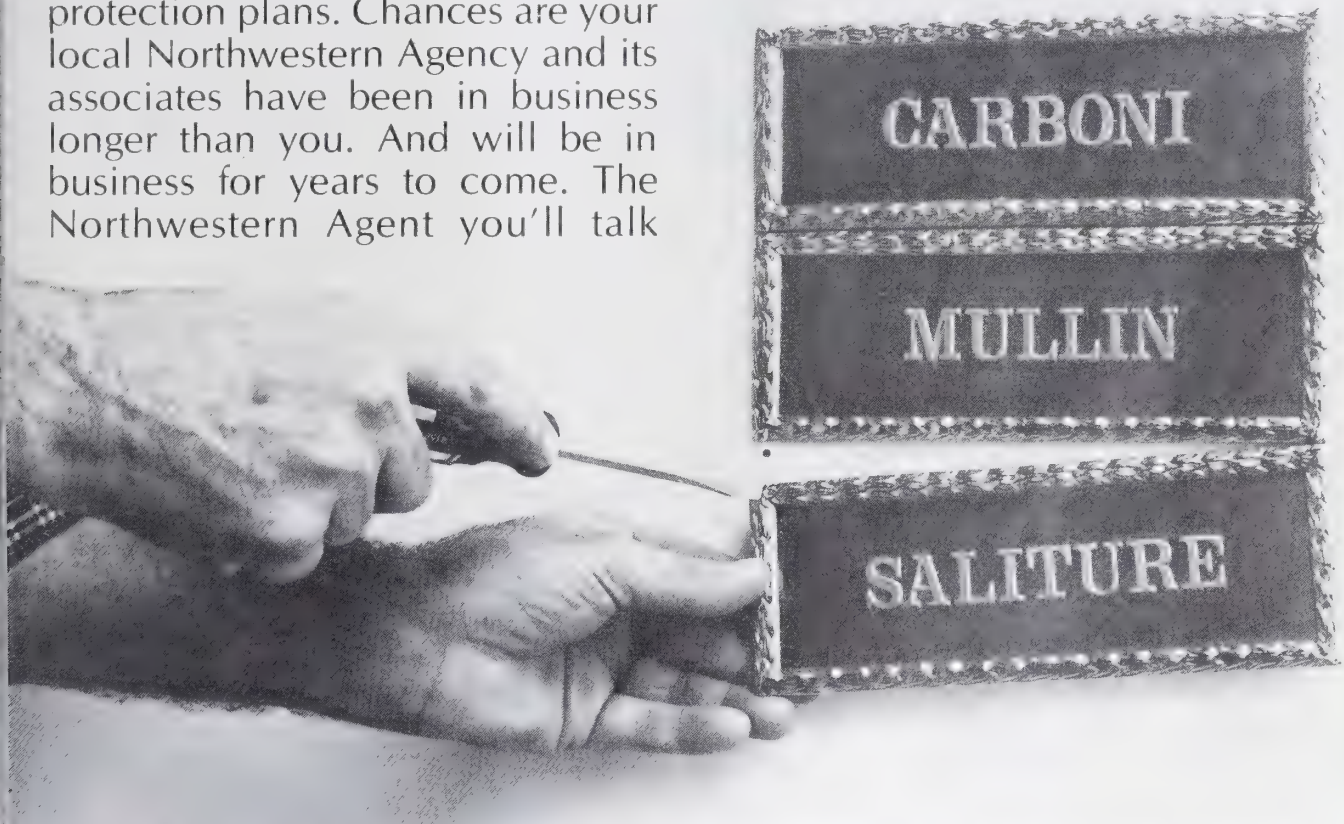

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FSI Corp. President Joel Elftmann
Government financed his domestic business.

have caught on to the deal that Elftmann saw, compared with more than 2,000 FCIA policies outstanding for larger companies. Elftmann thinks they're missing a good thing.

"Thanks to the insurance, I could leverage 100% of my foreign receivables," he says. "We used the government to help us grow. It financed our domestic operation." Today FSI does about $15 million to $20 million in annual sales, 35% of them overseas.

Of course, to export successfully, "You have to go to the market and learn conditions firsthand," says Elftmann, 41, who had worked as a designer for another semiconductor equipment maker for eight years but had no prior overseas experience. He did it the hard way, on his own. "I went to my foreign customers to find recommendations for good local distributors," he recalls wearily. "I spent two years overseas, getting rid of old marketing representatives, setting up a new marketing company and finding a service organization. I also exhibited at foreign trade shows, at that time a relatively inexpensive way to promote my products."

These days it is a lot easier. The Commerce Department provides lists of suitable distributors, individually investigated by its overseas trade officials, for less than $100 per market.

Elftmann counts on foreign sales as a cushion when, as now, domestic semiconductor manufacturers slow their purchases. "When American manufacturers quit buying in 1974, we had a nice order from Europe. It was enough to keep our work force [now 160 employees] busy. It could easily happen again this year," says Elftmann, But this time he's in a far better position to weather hard times domestically.

Snowplows to Saudis

Exporting saved Jim Blau's company. Snow-Way International, Inc., Milwaukee, had a wonderful product that nobody needed in 1979: a $1,300 snowplow designed to be attached to subcompact, front-wheel-drive cars like the Volkswagen Rabbit. It was a dry winter, and inventory piled up. "We had to have a broader marketing base. So I took a $10,000 gamble," recalls the 50-year-old Blau. "I flew to a trade show in Germany, taking a plow with me. I spent $2,000 for a booth. I didn't know what to expect."

He wasn't in doubt for long. Blau's patented design, which does not require remodeling of a car's front end, was an instant success. "The reception was wild," he says. "The plow was perfect for the European market, fitting in with the narrow streets. They had never seen anything like it." After he took $150,000 in orders, and even sold the plow on display, local auto dealers flocked to his hotel room. Blau, a Subaru and Volvo dealer himself, signed up 11 distributors.

Unfortunately, Blau returned to the U.S. without the vaguest idea of how to ship those orders. "I started picking brains," he says. He called friends who had export experience, called the local Commerce Department office for advice and recommendations and rang up several freight forwarders. They all helped.

Today Blau's snowplows are sold from Australia, where they clear mudslides, to Saudi Arabia, where they are used to clear sand from driveways. Foreign sales were such a snap—"Using containers, it is as easy and inexpensive [$100] to ship a plow to Switzerland as to Portland," says Blau—that he now prefers the overseas business. About 75% of Snow-Way's estimated $2 million in 1981 revenues will come a result of exports.

"It's a cleaner business. You get y money up front with the letter of cr no worries about collections," says B who spent years tinkering with o projects, including such less than ins winners as a kit to convert motorcy into snowmobiles, before hitting u the successful snowplow.

He has little time to tinker these d A recent free ad in a Commerce Dep ment magazine produced an 8-inch st of inquiries. Snow-Way's 6 employ (25 subcontractors produce parts for plow) are hard pressed to handle the ume of incoming mail and outgoing s ments. "I'm keeping 200 to 300 pe busy," says Blau, still a little awed at profitable results of that desperation to Germany.

Moving the furniture

"We were shamed into exporting," s Charles McKinney, vice president Dixie Furniture Co. in Lexington, N "We had some European buyers visi 1978, but we didn't have any produc spare. Frustrated, one complained thought your country wanted to exp given your trade deficit. Your attitud surprising.'

"That did it," says McKinney. ' hadn't thought about exporting bef but we had to find a way." Dixie spen

Snow-Way International's Jim Blau
He got a wild reception in Germany.

CPT explains what word processing is -in plain English

xactly what is word processing? Is it practical in a small office? And will your cretaries love it or hate it? CPT nswers these and other uestions—and includes me surprising facts out the remarkable PT 8000.

ord processing is simply a er, easier, less expensive way ype. A word processor does many ngs. However, typing is its main job.

Let's say you're preparing a sales posal on the CPT 8000 (right).

Instead of reaching for typing paper d inserting it like you would on a typeter, you begin typing immediately.

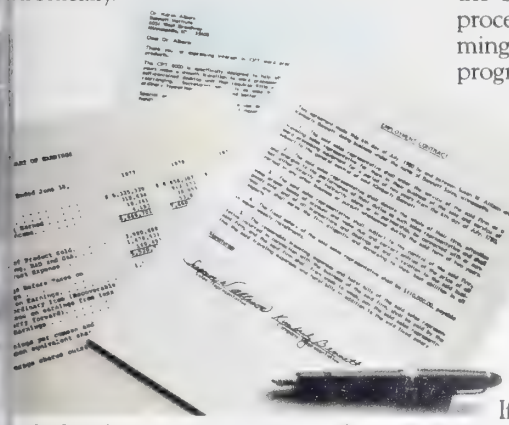
What you type appears on an easyead screen that actually looks like a et of paper: full-size, with black racters on a white background.

ote: The black-on-white screen is a major ature of the CPT 8000; some competitive odels have only a partial-page display, nd a green-on-green, computer-like screen.

Power typing

ause nothing's on paper yet, you can wer type" at full rough draft speed hout worrying about typos and other rs.

Mistakes are corrected easily right the CPT 8000 screen. Leave out a rd or paragraph? Just type it in and entire text can be readjusted tronically.



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least $20 million to build two new factories, and the company's $100 million plus annual sales includes, he says, a "sizable"—maybe 8%—export business.

Dixie woke up and so have other U.S. furniture makers. Big companies like The Lane Co. and Ethan Allen and little ones like Dunning Industries are shipping up to 10% of their output to Australia, Europe, the Middle East and Japan. American furniture and lamp exports were up 110% over the past five years, to $544 million.

Furniture exports got a boost from the dollar's decline in 1978. But that's not the main reason, says McKinney. "Once they bought our bedroom and dining room pieces, the subsequent rise in the dollar didn't bother them because they appreciated our quality."

Quality? McKinney explains: "We do more things by hand, like carving and shaping. We have 4,000 employees and put more people into the manufacturing process, creating a warm finish with hand painting. Cost-cutting Europeans spray paint and get a cold finish."

The fact is there are fewer craftsmen in the developed foreign countries these days, and fewer raw materials. William Lamparter, vice president of Century Furniture, Hickory, N.C., recalls "thinking that Americans went overseas for the latest and best in furniture. But when I asked a British retailer why he wanted to carry coals to Newcastle, by shipping our 18th-century English bedroom reproductions to London, he replied, 'What do you do when 'Newcastle runs out of coal?' "

The U.S.' plentiful supply of wood makes Greensboro, N.C.'s Dunning Industries' table lamps a popular Japanese consumer item. President Steven Pitchersky discovered the inferior quality of Japanese lamp design and appearance while touring a New York City showroom. "They don't have enough low-cost wood for lamps, so we got into exporting as a lark," he says. Now Dunning ships $1.2 million worth of lamps—10% of total sales—to Japan and Europe. Moreover, his export sales are more profitable than domestic. "With a letter of credit from the trading company, our money is up front without any collection problems or salesmen's commissions," says Pitchersky.

Molex Vice President Fred Krehbiel
Others chose Europe, he went to the Far Ea

Life after exporting

Fred Krehbiel, then 24 years old, spent almost a year investigating foreign markets before his father's company, Molex Inc., made its first export sale in 1968. But he spent not a nickel on foreign travel for a customer.

He simply asked customers about the overseas potential of the Molex line of connectors—the plastic plugs that link up wires and circuitry inside televisions and telephones. He reviewed competitors' annual reports to learn about their export operations and he combed Commerce Department files.

And after that Chicago-based Molex (FORBES, *May 14, 1979*)—then a $6 million (sales) outfit—made its first export sale, to Japan's Matsushita, the maker of Panasonic televisions. "Other companies think first of exporting to Europe, then to Latin America and then to the Far East," says Krehbiel, to whom a worldwide perspective comes easily, after graduate studies in England while getting a political science degree from Georgetown University. "We went first to the Far East."

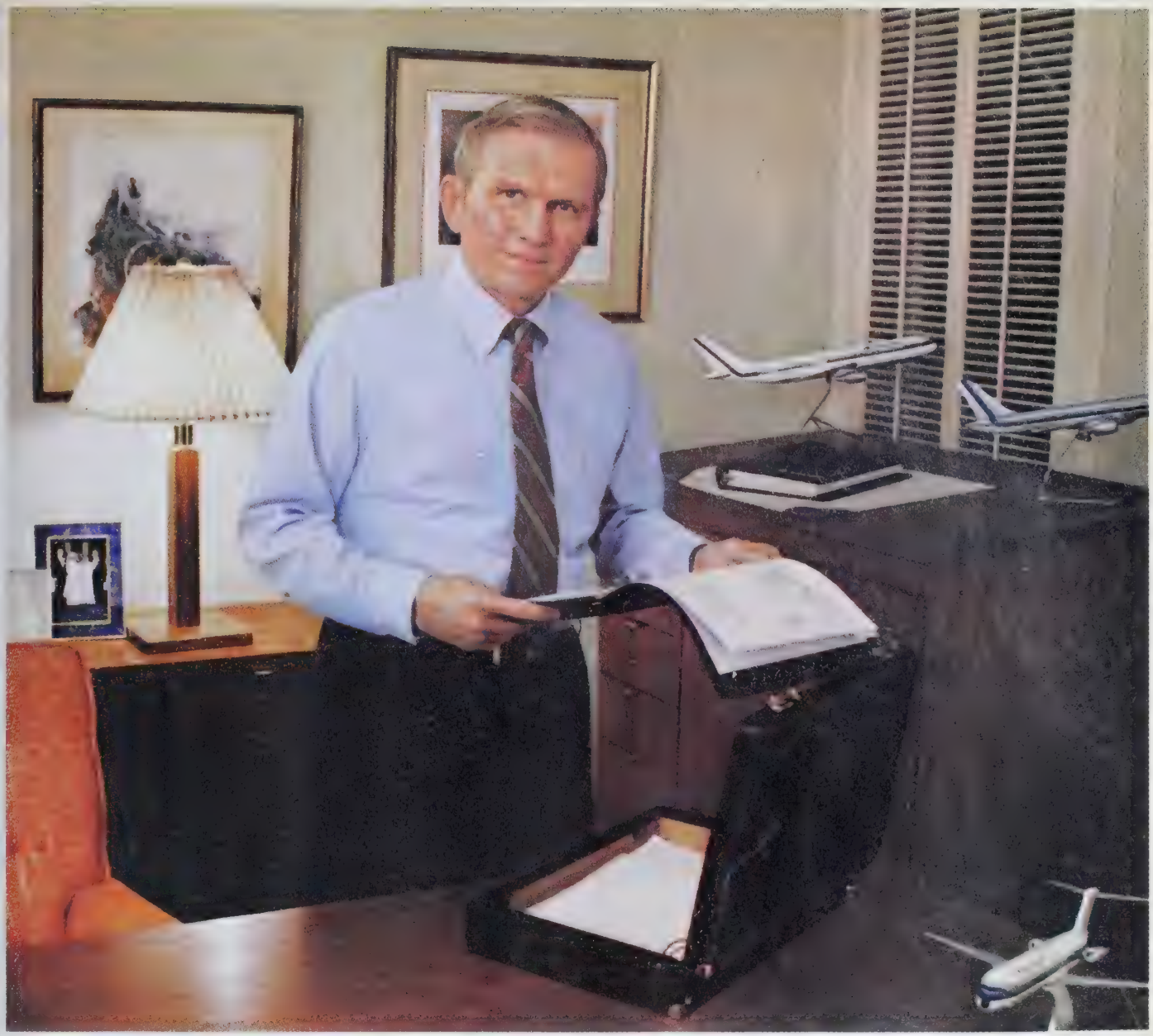
As often happens, the first customer in a country leads to others. Soon Molex was supplying connectors to much of the growing Japanese electronics industry. It had a lower-cost product and assembly concept, but were easy to duplicate. To prote growing market—by 1970 its sal Japan had risen to $200,000—Molex a plant in Yamato City in a joint ve with a Japanese partner, whom it bought out.

Today the company—$122 m sales and $15 million net income two plants in Japan and others in S pore and Taiwan. The Far East proc 45% of its net income on 34% revenues. Overall, the foreign are counts for 56% of its volume. It has up a market in Brazil to about $2 mi and is now building a plant at Camp near São Paulo.

But has the U.S. gained business o exports because of these overseas f ties? We win both ways, says Krel He explains that Molex' overseas p produce about a thousand high-vol parts, but the company's catalog tains 20,000 products. "Our interna al operation increased domestic e sales because it pulled in additiona ders for small-run items," he says.

Molex' U.S. exports will rise to million in the fiscal year ending in from less than $5 million in each o two preceding years. That's just a double the company's total sales vol in the year Fred Krehbiel, now exec vice president, started his cost-effe investigation of the export markets.

Dixie Furniture Vice President Charles McKinney
European buyers shamed him into exporting.



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Merrill Lynch has the mass business, but it is earning for more of the class business. That's the meaning of its recent reorganization.

Upscaling the herd

By Harold Seneker and Ben Weberman

THE BROKERAGE STOCKS, usually a sideshow on Wall Street, have been center stage *(see Statistical Spotlight, p. 203)*, what with trading recently running substantially above a year ago and with Prudential's proposed takeover of Bache. Almost unnoticed in the excitement has been a major reshuffling at the biggest brokerage house of them all, Merrill Lynch, Pierce, Fenner & Smith Inc. This was no routine game of corporate musical chairs, but rather a clear signal that the Thundering Herd is embarking on an important new strategy.

Merrill Lynch has never forgotten that it gets 85% of its revenues and more than 85% of its profits from the same watering holes where it's always gotten them: mostly from the stock market, and a little from the bond market. Real estate, insurance, leasing, corporate moving services or whatever are all very well, but a big payoff is in the distant future. In the here and now Merrill Lynch has to look for something else to fatten its returns.

The world's largest stockbroker has done pretty well for itself: The parent company has tripled revenues in five years to $3 billion and occupies unassailable first place in volume of trading on U.S. financial markets. By some counts it's also first in underwriting volume. But in other ways it's not first enough. Profits have only about doubled in the same five years and Merrill's return on capital has been pedestrian when it's compared with such houses as E.F. Hutton and Dearson Loeb Rhoades.

A problem—if a problem it be—is that Merrill is more heavily capitalized than its smaller competitors, with almost $1 billion in stockholder equity, compared with E.F. Hutton's $259 million and Dearson Loeb Rhoades' $304 million. An answer for Merrill, therefore, is to make its capital work harder. To this end it wants to step up its investment banking, merger and acquisition, and corporate debt business—areas that can be highly profitable but do not require huge amounts of capital.

William A. Schreyer, president of MLPF&S
No routine game of musical chairs.

That's where the reshuffling comes in. Merrill Lynch's securities subsidiary—85% of the company, remember—used to be set up on a functional plan. The sales organization, the trading desks and the backroom all reported separately to the president. Very simple, and efficient when Merrill Lynch was smaller. It was comfortable even later, as long as the company thought of itself as just a wire house. But no longer. The president of the securities operation, William A. Schreyer, explains why:

"Until now, we have been everything to everyone. Our individual client feels neglected despite enormous research and portfolio support. He thinks that we are devoting all our energies to courtship of the big buyers and the major corporations. At the same time, corporate executives only come to us when they think that they need the massive distribution capabilities of 470 offices and 8,500 account executives."

This attitude gnaws at Schreyer. The big profits—in terms of margins, certainly—are in that nonretail side of Wall Street, the underwriting of debt, the mergers and acquisitions game.

With the stakes in the takeover game now often running into billions of dollars, the fees for investment bankers involved are getting correspondingly fatter—scaling down from 1%, depending on the deal. Not only is this high-margin business, it ties up relatively little capital. As long as the big corporate players in those games come to Merrill Lynch White Weld only when they need the small, equity investor, Merrill Lynch will be held back.

So now Merrill Lynch is taking a "marketing" tack. Schreyer still has an operations man and a finance man reporting to him, as staff, but the heart of his new arrangement is a clear separation between the old wire house and the new Capital Markets Group in the line management. He is determined to give each one a distinct, independent personality in the eyes of The Street and, at least as important, the customers.

The change actually started with a meeting of top management six years ago near former CEO Donald T. Regan's home on John's Island, Fla. They met to decide what to do in a world of negotiated commissions, shifting regulations and mounting competition. The old unitary structure wouldn't work anymore, they foresaw, indeed it would become a hindrance. Top management was startled to realize that as a result of the old system it could not always know at any given moment which activities and customers were profitable and which were not. The same account executives servicing individuals' accounts, for example, went out and made calls on the institutional accounts. Nobody knew how to allocate which cost to whom.

Everything Merrill Lynch the parent company and Merrill Lynch the securities subsidiary have been doing since came out of that meeting: diversification and acquiring a well-regarded institutional-investment banking name, which turned out to be White Weld. Merrill Lynch is also sinking $110 million through 1985 in an international network of computers and automated equipment to speed transactions and put detailed profit-and-loss figures at Schreyer's fingertips. Soon he will know whether any customer—small or large—is profitable after deducting the cost of the services he uses, and by how much. That's bad news for some small investors with inactive accounts or those making large demands on the broker's time; they may find themselves paying consider-

ably higher commissions. It's not that Merrill has lost interest in the individual investor. It simply wants to make sure it is pricing its services properly. The same rules will apply to the big institutions.

But the emphasis—where Schreyer will rise or fall—will be in the corporate and underwriting side of the business. Merrill hopes to wrest away from the likes of Morgan Stanley, Salomon Brothers and Goldman, Sachs the customers who used to go for the greater prestige of the more specialized houses.

Merrill was greatly heartened back in 1979 when IBM decided that it wanted its $1 billion debt offering to have more than one underwriting manager. Morgan Stanley, the traditional sole manager, balked and Merrill Lynch was asked by IBM to join Salomon in heading the offering. But such coups are scarce. Merrill wants lots more.

To that end, Merrill Lynch White Weld Capital Markets Group will undertake to pull off a Salomon Brothers on the investment banking world. That onetime outsider firm bought its way into the bond underwriting business in the 1960s. It would underwrite bonds on attractive terms even in bad markets. Old-liners would only promise to do so in favorable markets. Salomon would depend on its championship-class trading desk to save the bacon. It would distribute hard-to-sell bonds by swapping with institutions stuck with their own turkeys. The few times it couldn't were the cost of admission.

Now Merrill Lynch thinks it is in a position to do something similar by using its strengthened institutional sales force alongside its trading desk. Sam Hunter, its top-flight block trader on the equity trading side, has been moved over to run the debt-trading side. The former bond man, Rodger Shay, has a comfy institutional sales post in Miami. Both trading and institutional marketing are under the MLWW Capital Markets umbrella, and the company's very large research arm is attached now to the institutional division. All this is under Edmond N. Moriarty Jr., executive vice president in charge of MLWW Capital Markets Group. He has run the municipal and corporate bond departments and, according to Schreyer, knows how to work with the Merrill Lynch branch system and rates high as an administrator and risk-taker.

What's interesting here is that the reorganization is not a sign of weakness: Merrill earned about 25% on its stockholders' equity last year, and the first quarter of this year looks better than a year ago. But it's as if General Motors in its palmy days had Chevrolet, the volume leader, but didn't have a strong Cadillac division to really sweeten profits. Merrill's got a firm grip on the Chevy end of the business. Now for the Sevilles. ■

Quite a number of major companies a saying with big bucks that minerals will b scarce tomorrow. Have they overlooked th resource that is in short supply today?

Copper in hand, ARCO looks for oil

By Nick Galluccio

CHAIRMAN ROBERT O. ANDERSON of Atlantic Richfield Co. was too far ahead of fashion in 1977 when he bought asset-rich but cash-poor Anaconda Co. for $700 million—little more than half its book value. Just about everyone on Wall Street sneered and other oilmen wondered.

Now, with Sohio offering 30% over book for Kennecott, and Seagram and SoCal bidding twice book for St. Joe Minerals and AMAX, it appears that Anderson got Anaconda's rich copper, bauxite and molybdenum reserves at a bargain. Pound for pound of copper alone, Sohio is paying 43% more for Kennecott than Anderson paid for Anaconda.

It took almost four years for others to see what Anderson saw: that mining companies, like coal companies before them, lacked capital for their own development and were natural links for the cash-rich oil companies. Nor was the minerals play the only example of Anderson's foresight in the 18 years he has spent building ARCO from scraps called Atlantic Refining, Richfield Oil and Sinclair Oil. Which makes the company's latest focus all the more interesting.

Los Angeles-based ARCO is spending $16 billion over the next five years on domestic oil and gas exploration and production, more than almost any competitor. The company increased exploration acreage 48% last year, to more than 11 million acres. It has, or plans to have, drill rigs operating in places not often associated with oil—Tennessee, the Appalachian province stretching from New York to Mississippi, Kentucky, West Virginia, North Dakota, Montana and Utah. It's also drilling in the tried and true areas of Oklahoma, Texas, Louisiana, the Gulf of Mexico and off the Arctic coast of Alaska, where the 1968 Prudhoe Bay discovery made it the giant company it is today.

And the company will spend anot $2 billion expanding already succes drilling operations in Indonesia and North Sea, as well as in Dubai, Ch Somalia and the Philippines.

That's $18 billion by 1986 on oil gas, *vs.* only $3 billion budgeted for same period on ARCO's minerals, and chemicals. True, the ancillary act ties produce only 8% of ARCO's ope ing profits, but conventional wisd holds that they are the future, that th isn't that much oil to be found.

The fact is, Anderson and ARC new president, William F. Kieschni 58, who will almost certainly beco CEO next year, agree and disagree w the conventional wisdom. It's a ma of timing. "Basic resources are going become scarcer and more costly and expect to be one of the foremost min companies by the turn of the centu says Anderson.

Still, the turn of the century is alm two decades off, and at today's prices and gas appear more attractive to AR "There's a lot of oil to be found in t country, but probably even more nat gas," says Kieschnick, a chemical e neer who became president in Janu when Thornton Bradshaw departed t RCA's chairman. He grins and refer ARCO's recent discovery of 500 bil cubic feet of natural gas, a lot of it in Gulf of Mexico, to make his point.

Kieschnick believes that Alaska h the greatest concentration of undis ered oil and gas reserves, perhaps 20 lion barrels of oil alone. That compa with current U.S. reserves of around billion and current Saudi Arabian serves of 150 billion.

But exploration in Alaska is restrict which is one reason why ARCO other oil companies plan to drill in r tively untried areas like Tennessee well as in the new bonanza regions of Rocky Mountains. It's risky, but it's best risk around. "We're in a busin

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where taking gambles is usually more rewarding than safe investments," says Kieschnick, who reckons rising oil and gas prices could mean close to a 20% aftertax return on each dollar that goes into searching for oil and gas.

Simply put, with $3.2 billion cash flow last year—it earned $1.6 billion on $24 billion revenues—ARCO can finance much of its huge capital budget internally. It has the oil companies' problem of what to spend the money on. And, cognizant of Exxon's troubles with electric motors and information processing and Mobil's with retailing, ARCO has no plans to move outside natural resources. "We are sticking to what we know best," says Anderson, 64, whose bow ties, ID bracelet and Stetson hat will give way to Kieschnick's pinstripes.

That means oil and gas for the near future, minerals for the long term. It's a strategy the company's emerging management is committed to with some reasonable doubt. "It's going to take us several years to find out if we are being too aggressive," says Kieschnick. "If we don't find enough oil and gas, then we'll shift the money toward minerals, coal and chemicals." Adds Edward M. Benson, ARCO's vice chairman: "The smart oil companies are going to know how long to continue to throw massive amounts of money into drilling and when to stop. It's like the stock market. You've got to know when to get out."

For now, at least, ARCO can boast replacing its oil reserves while companies like Texaco, Gulf, Cities Service, Marathon and Amerada Hess are slowly depleting theirs. ARCO expects to hike its 275,000-barrel daily output from Prudhoe Bay by another 60,000 barrels beginning next year, when production starts from its Kuparuk River field, just west of Prudhoe. Production from ARCO's original Prudhoe field won't go into decline until 1986.

Robert C. LeVine of E.F. Hutton estimates that the bottom-line contribution from Kuparuk—located north of the Arctic Circle and thus exempt from the windfall profits tax—could be over $200 million annually. And there's no telling how much ARCO will net from the estimated $1 billion a year in added revenues when its more than 8 trillion cubic feet of Alaskan natural gas start flowing later in the decade.

To date, ARCO's diversified businesses have given a mixed performance. Anaconda hasn't done badly. Even in one of its worst years, with copper prices depressed and a five-month miners' strike, Anaconda earned $112 million pretax in 1980. It earned $207 million in 1979. Chalk one up for Anderson's foresight. Last year Anaconda opened a $200 million Utah copper mine. This year it will open a $200 million molybdenum mine and begin construction on a $400 million Kentucky aluminum facility.

Chalk up two more in ARCO's refining and marketing. After admitting in 1970 that he was wrong to take ARCO into nationwide gasoline retailing, Anderson reduced the outlets to 8,000. The company sells almost as much now as it did through 16,000-plus stations in 1973. ARCO can also process as much crude oil—830,000 barrels daily—in four large refineries as Gulf and Mobil run in seven, thanks to Anderson's having expanded big years ago.

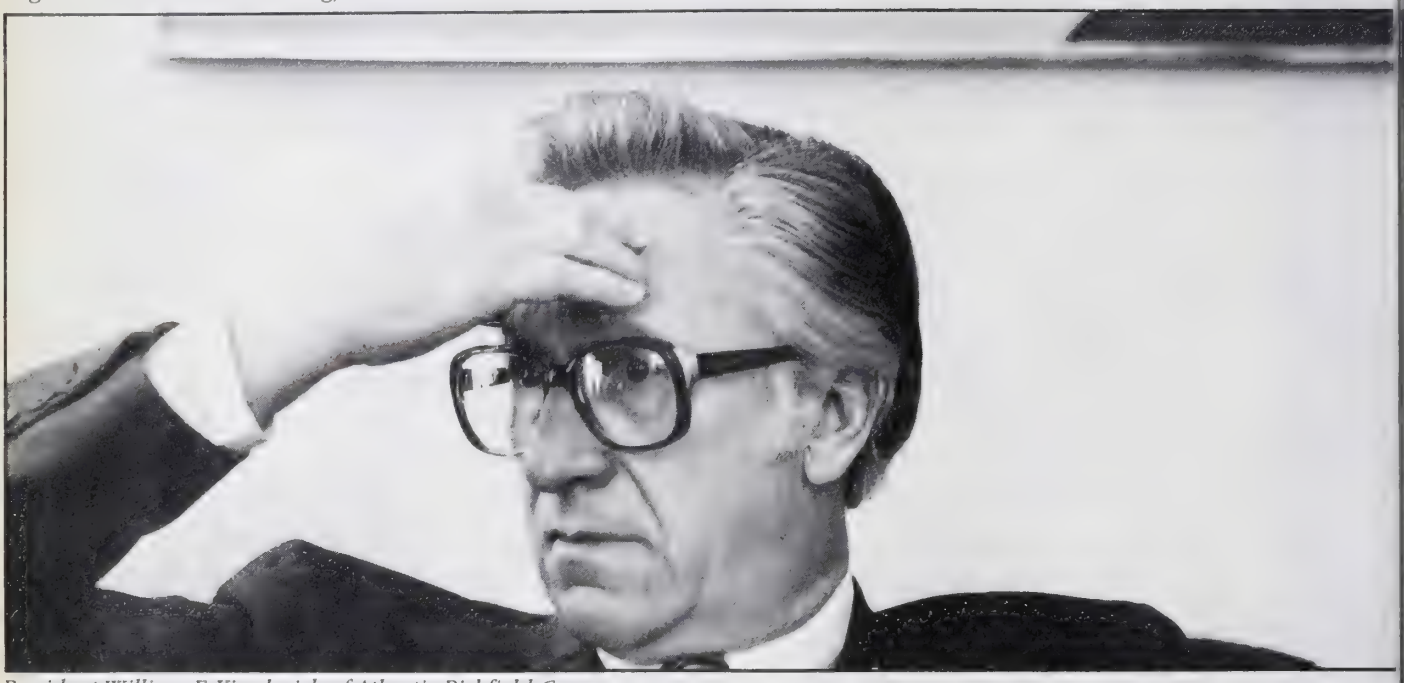
His touch hasn't been unfailing. Coming off a strong year in 1974, ARCO rushed to expand in commodity chemicals. But by the time it did, at a cost of over $1 billion, the product was in o supply. ARCO's operating margins f chemicals (5% of ARCO's opera profits) have fallen steadily from 13% 1975 to a paltry 5% last year. Since 19 however, management has been shif to more profitable specialty chemica

ARCO's other problem is its alte tive energy programs. Over the last cade the company has scrapped plan build a nuclear enrichment centrif and a facility that would have proce 100,000 barrels a day from tar sands. I year ARCO sold its 60% interest in oil shale joint venture to Exxon.

The company, in short, appears have cleared the decks for a future ba on oil, gas and minerals, including c And for a future without Anderson, shrewd, decisive and unorthodox cl executive who took it from a scarc profitable patchwork in the 1960s t $24 billion (revenues) company w more oil reserves in the U.S. than alm anybody but Exxon.

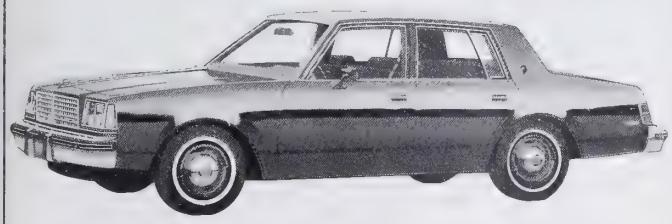
When Kieschnick, whose backgrou is in exploration and production search, steps up to chairman, the sm money is betting on Ralph F. Cox for presidency. Cox, 48, has served as northern Alaska district manager a more recently, as president of Anac da's operations. The two dark horse c didates are Robert E. Wycoff, 50, w heads ARCO's oil and gas operatic and Lodwrich M. Cook, 52, who he the company's chemicals and transpo tion divisions.

Says Anderson: "If you're really a g general, the biggest part of your jo finding commanders to carry on. T company won't lose its momentum." his prescient move into minerals f years ago, he's helped see to that. ■



President William F. Kieschnick of Atlantic Richfield Co.
"Taking gambles is more rewarding than safe investments."

Economy you can feel comfortable with. The diesel Buicks.



EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
23	34	455	673	19.8

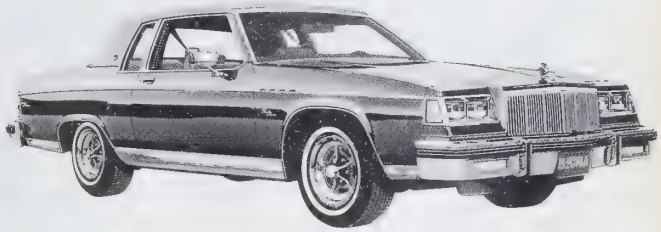
The diesel Century.

EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
23	34	455	673	19.8

The diesel Regal.

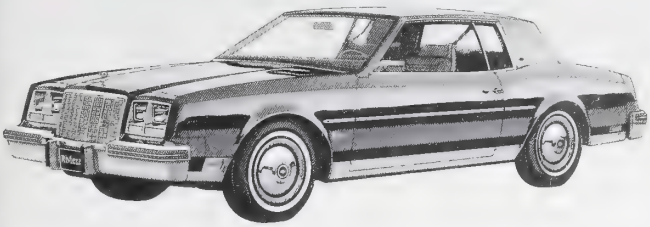
EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
22	34	594	918	27

The diesel LeSabre.



EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
21	33	567	891	27

The diesel Electra.



EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
20	30	456	684	22.8

The diesel Riviera.

Use the estimated MPG for comparisons. Your mileage and range may differ depending on speed, distance, weather. Actual highway mileage and range lower. Estimated driving and highway range obtained by multiplying mileage estimates by fuel tank capacity. Estimates and range lower in California. Buicks are equipped with GM-built engines supplied by various divisions. See your Buick dealer for details.

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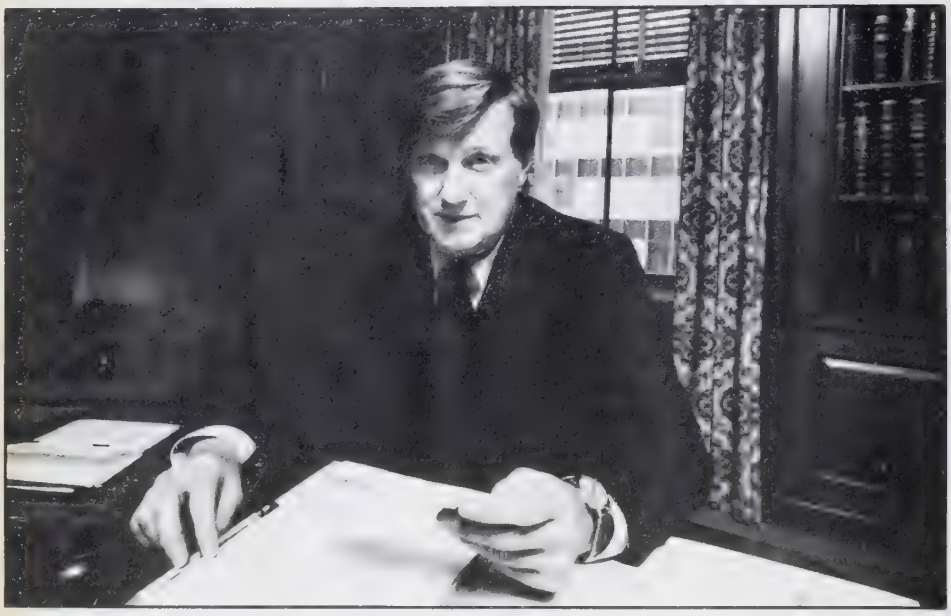
No more excuses

General Host Chairman Harris Ashton
Now he must perform.



By Stanley Ginsberg

JUDGING BY THE EASE with which he smiles, General Host Chairman Harris Ashton is happier than he's been in a long time. Now that he's arranged the leveraged buyout of his $425 million-a-year company's long-troubled fresh meat business, the last obstacle to decent earnings growth seems to have disappeared.

You remember General Host: When would-be conglomerator Richard Pistell took it over in 1965, the struggling bakery chain was supposed to be his imperial base. The closest Pistell ever came was in 1969. For one breathtaking moment, GH acquired 57% of Armour, a company more than 10 times its size. By the time Greyhound clouted its overextended rival out of the box, however, big-game hunter Pistell had gone on an extended African safari.

Just one month later, Ashton became chairman. He was a 36-year-old Park Avenue lawyer who had studied corporate marksmanship for three years as Pistell's second in command. But Connecticut-based General Host was hardly poised for a kill. The Armour adventure left the company with a top-heavy 6-to-1 debt-to-equity ratio and the potential of massive common stock dilution.

Still, blessed with the proceeds from selling his Armour shares to Greyhound and $74 million in tax credits, Ashton continued Pistell's strategy. In 1971 he bought Cudahy, a moderately profitable meatpacker, for $70 million. Its cash flow and assets may have made General Host's bankers happy for a while, but the fix was temporary. Despite hefty leverage, the company returned a meager 12% on equity in 1973, its best year.

Cudahy's ragtag assortment of businesses brought a passel of problems. In addition to meat, its operations included salt production, leather processing, animal-feed manufacturing and mink ranching. General Host, meanwhile, had its own clutch of businesses—from baked goods to hotels—and Ashton was soon trying to manage 20 businesses, many which were in trouble.

His solutions were simple and unc ginal, for cautious man that he is, Asht rarely ventures off the well-beaten trac

Ashton's debt strategy, borrow from Reliance Group's Saul Steinbe involved swaps and repurchases bookable gains. Since 1972 such changes have extinguished better th $65 million in General Host's long-te debt, reducing it to its current $1 million. Even so, General Host report negative net earnings in three of the l six years.

The company's annual reports, in fa carry an almost regular section of loss called "discontinued operations." As ton has mercilessly pared the compa he and Pistell assembled so haphazard ridding it of 15 businesses in all.

Ashton's biggest divestiture is t agreement in principle to sell Cudah fresh meat operation, which lost $2 million last year on over $400 million sales. Ashton clearly copied Esmark that one. But he'd better be careful: Ge eral Host's 1980 annual report alrea treats fresh meat like a discontinued o eration. It took Esmark over a year brainstorming, pleading and cajoling b fore it was able to get rid of Swift. could take General Host a lot longer th that, agreement notwithstanding.

If the deal does go, General Host shou recover around $20 million of the $28 million reserve it established to cov losses associated with the leverag buyout, most of which represents the co of funding Cudahy's pension liabilities

Obviously Ashton's blood still quic ens when he talks about acquisition After all, that's where the glamour a the excitement are. Ironically, Ashton happy to set aside his faddishness—or he claims—when it comes to the bu nesses he's seeking. "We want stea companies with a few basic produ lines—no fads, no heavy marketing."

That may be an understatement. W ness Hot Sam, a chain of hot pretz shops located in enclosed malls. Asht acquired it for $2 million in 1973. In Ju General Host bought Hickory Farms, 563-store cheese and sausage retailer, f $41 million. In December he added i largest franchisee for another $13 m lion, which raised the number of co pany-operated stores to around 20 Hickory Farms has promise: It has ave aged 20% annual growth since 197 and last year its $49 million in revenu generated operating income of $13 million.

Ashton has had his best luck with t ones that got away: General Host so 25% of National Convenience Stores— logical complement to its Li'l Gener chain of convenience stores—to Ca Lindner's American Financial Corp. 1979 and netted a neat $5 million pret

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The SR-71 flies for the Strategic Air Command—higher, faster than any other aircraft. Look at the chines on the front of the SR-71 at the right. Without them, most of the "lift" would be in the rear—and the aircraft would dive as it flew. With the chines, lift also is spread across the fuselage, helping the SR-71 to cruise over 2000 mph. The SR-71 was the first operational aircraft to use chines. Now you find them on advanced fighters.

The Aerodynamic Fuel Saver.

A unique aerodynamic advance on the L-1011 TriStar is helping airlines save fuel. Note those long wings. They've been lengthened nine feet since the L-1011 first flew.

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In the future, other jetliners will have Active Controls, l after they first appeared on the L-1011.

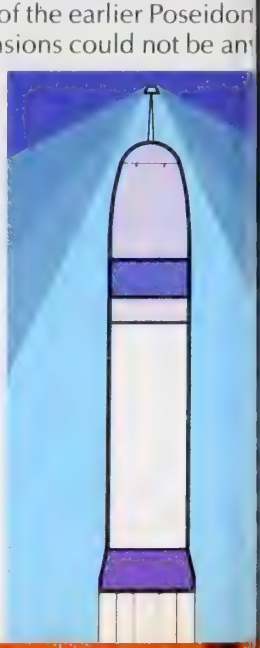
The Aerodynamic Range Stretcher.

The Navy told Lockheed that its newest fleet ballistic mis Trident, must have twice the range of the earlier Poseidon But Trident's overall physical dimensions could not be an larger than Poseidon's.

This meant Lockheed had to give Trident a blunt nose. (Poseidon had employed a sharp, aerodynamically efficient nose.) This also meant more aerodynamic drag—and drag works against range.

The solution: fool Mother Nature. Lockheed engineers developed an ingenious telescoping spike that extends more than four feet and locks into place at a precise moment after Trident is launched.

Instead of flying through the atmosphere with the blunt nose slamming into air, a small disc



e front of the aerospike diverts airflow and creates the dynamic illusion that Trident is bullet-shaped. This e, along with other advances, enabled Lockheed to meet Navy's requirement of doubled range.

e Airlifter Afterbody Champion.

ters are a special breed. To airdrop large equipment, need wide rear doors that create a flat, two-dimensional ce. To provide fast, easy loading, their cargo decks must

C-5 Afterbody

st hug the ground—and this means airlifters need a y upswept fuselage afterbody to let the tail clear the nd on takeoff, particularly short field takeoff. Both the ear surface and upswept afterbody create aerodynamic that you do not encounter in passenger jetliners. is caused the first great airlifter, Lockheed's C-130 ules, to have 10% of its overall drag in the afterbody. vd linking of structural, mechanical and aerodynamic s enabled Lockheed to reduce afterbody drag on the nd great airlifter, the C-141 StarLifter, to 3%. In the third airlifter, the huge C-5 Galaxy, Lockheed engineers led afterbody drag down to an incredible 1%.

The Aerodynamic Lift/Drag Champion.

In aerodynamics, lift is good, drag is bad. The more lift and the less drag, the more efficient the aircraft. And that's where the U-2 reconnaissance aircraft stands out. Those long, slender wings give it the highest lift-to-drag ratio of any operational powered aircraft in the world. But there's even more to the U-2's stellar record. The wings are so successful, in part, because they are extremely light in weight. Manufacturing those feathery wings was as great a triumph as designing them.

The U-2 story is far from over. An advanced version, the TR-1 recently entered production at Lockheed.

What's next? Lockheed's past and present record says new advances are coming, in many forms of flight.

Lockheed

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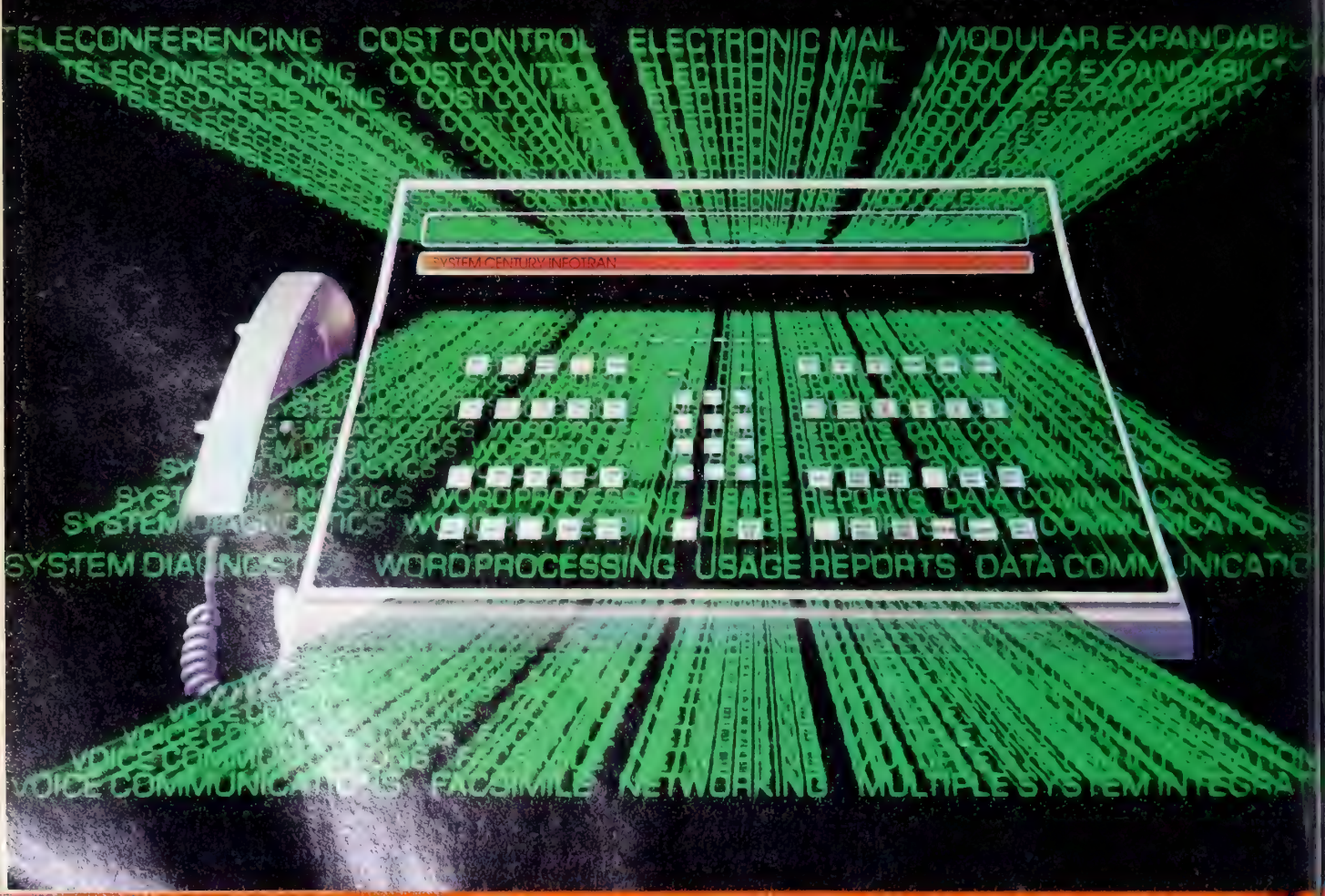


n. Similar sales of holdings in Host ernational and Ponderosa System add- another $3.7 million pretax.

For Ashton, though, the takeover me can go both ways. General Host's ck trades near book value, and the mpany has a tempting $45 million in h and receivables. Last summer, Cla- Corp., a $103 million-a-year mini-conglomerate, called off its acquisition attempt, but not before accumulating 24% of General Host's 2.3 million shares. Consider this, however: Ashton freely acknowledges that members of Chicago's Pritzker family, whom he describes as "good friends for a long time," have held around 7% of General Host since 1969. Thus, anyone interested in taking over General Host may have to face a potential deterrent—Jay Pritzker.

This may make Harris Ashton more secure than he appears. But now that he has made General Host the company he wants it to be, the pressure to perform is on. If General Host continues its dismal record, stockholders—not least of all the Pritzkers—will know who's at fault. ■

The Up-And-Comers

ompeting against companies 10 times its ze in the red-hot laser market, savvy Control ser wants only the most profitable mar- ts—not the biggest and not the newest.

"We prefer to follow"

By Subrata N. Chakravarty

ORTY-THREE years after Albert Einstein recognized the theoretical possibility of the laser, and count- s science fiction writers had armed ir characters with laserlike "ray ns," the American scientist T.H. Mai- n actually invented one in 1960, using a ruby rod to produce the laser's characteristic beam of high-energy, parallel light waves.

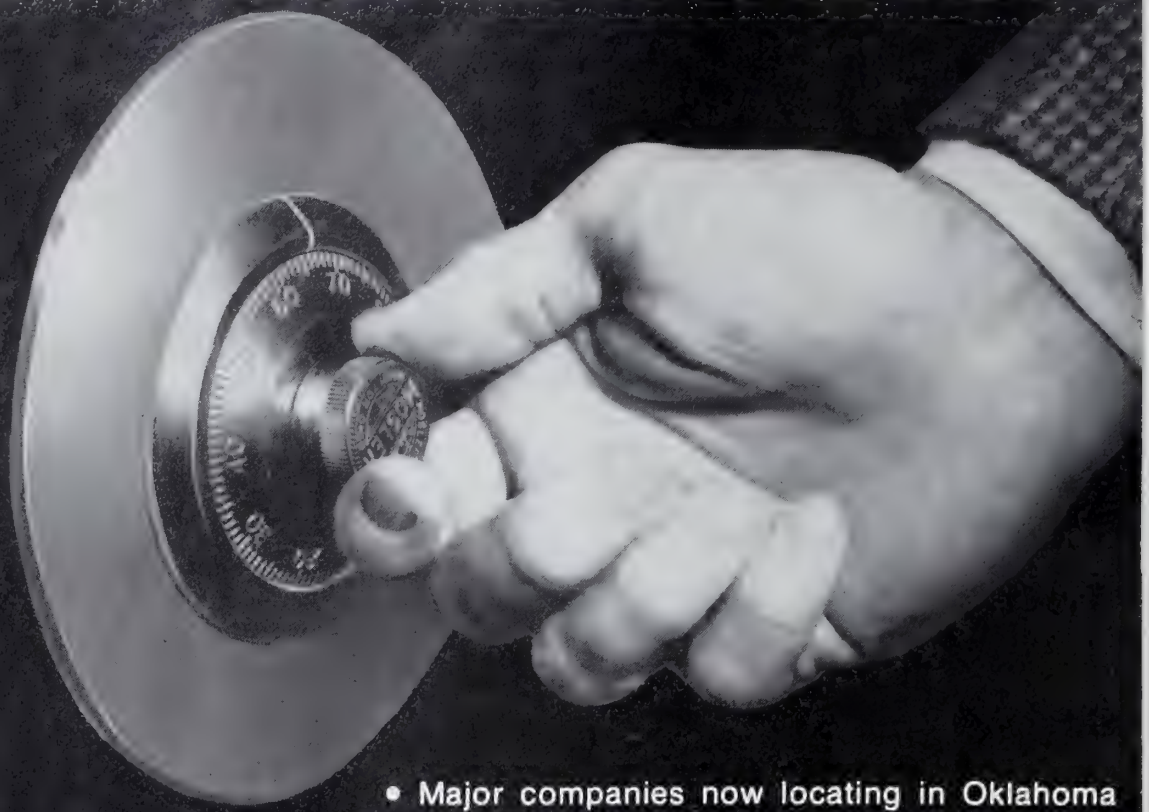
It has taken another 15 or 20 years for a viable commercial industry to emerge. So numerous are the potential commercial—and military—applications of lasers, and so rapidly is the technology evolving, that the business has been undergoing a particularly brutal childhood. The Justice Department 2½ years ago was already filing an antitrust suit against industry leader, $135 million-sales (about one-third in lasers) Spectra-Physics for its acquisition of Laserplane, a producer of laser and control systems for land leveling. With second-ranking, $61 million-sales Coherent, Inc. (a third of sales in lasers) now experiencing sharply declining profitability, the spotlight falls on feisty $13 million-sales Control Laser, whose financial and marketing knowhow have made it a surprisingly strong number three.

trol Laser's Lee McDaniel
u can blow a bloody fortune trying to guess what the market is."

Control Laser has lately been running neck and neck with Spectra-Physics in profitability with a better than 18% return on equity over the last few years and very little debt. Earnings have more than tripled in three years (admittedly from a much lower base), while S-P's "only" doubled. Now, thanks to another public offering last year, Control Laser has wiped out its debt altogether and can draw immediately on $5 million in cash—and that's without having to worry about the threat of a takeover with its stock at a price/earnings ratio of 35.

Achieving that kind of financial takeoff position wasn't exactly a piece of cake for Control Laser management. Christened Orlando Research in 1966 by founder Dr. William H. McMahan, the company plunged ever deeper into the red because McMahan couldn't stop tinkering with the product long enough to get something on the market. In 1969 McMahan was bought out by Michael Ivashuk, who had made a bundle in jet engine components and was investing in every hot new concept from automobile airbags to lasers. Because Ivashuk was essentially a passive investor, however, Control Laser's engineers kept tinkering and the losses kept mounting. Enter M. Lee McDaniel, a physicist and former sales manager for Spectra-Physics, then Ivashuk's partner in the ailing airbag business. In 1971, faced with mounting losses, Ivashuk persuaded McDaniel to try to bail out Control Laser. "My predecessors had never really stopped engineering and begun production," McDaniel recalls. His first-aid was crude but effective. He decided the product was ready for marketing, and he slashed the

OKLAHOMA
HAS THE
RIGHT COMBINATION



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yroll to less than a third its former :e, from 22 to 6. Then he cut his prices d prayed. "We would simply watch the *mmerce Business Daily* and sell by ıce—price alone," he says. "With little no overhead we managed to survive a l year."

But it was immediately clear to sales- ın McDaniel that longer-term survival :ant switching from the narrow mar- t of gas/ion scientific lasers to the far ger industrial market where powerful l-YAG (neodymium-doped yttrium- ıminum-garnet crystal) lasers perform ch standard machine tool functions as tting, drilling, trimming, annealing, lding and marking. But switching m passing a beam of light through a s medium to solid crystals made of Nd- ıG, rubies or glass represented a major hnical leap for Control Laser.

Then in 1972, as Control Laser was t breaking even, McDaniel got lucky. ı Oregon-based machine tool com- ıy, Electro Scientific Industries, asked ntrol Laser to become the second bid- along with New Jersey's Holobeam a Nd-YAG laser contract. Control La- engineers quickly stripped down Ho- beam's Nd-YAG and accepted. "We re- se-engineered the product because .I. wanted commonality and we progressed from there," says McDaniel. "Progressed" is putting it mildly. Pulling out all the stops, McDaniel scored an end run on the entire Nd-YAG market by consistently underpricing Holobeam. By 1977 he had become the largest producer of industrial Nd-YAG lasers.

But 1977 was also the year that Michael Ivashuk sold his 54% interest in Control Laser to Robert van Roijen, chairman of Washington, D.C.'s Security Storage and an investment manager and venture capitalist. If McDaniel was upset that Ivashuk had sold out, his fears were soon allayed by the opportunities opened up by van Roijen's obvious financial savvy. Why not buy Holobeam by selling off the assets of Ivashuk's old jet engine components business, suggested van Roijen. Since Holobeam made complete laser systems (including the machines that operate the lasers), a business Control Laser wanted to get into, McDaniel was all for it. Pragmatist that he is, McDaniel knew he didn't have time to reinvent the wheel in an industry where technology was moving as fast as it was in lasers. "Start with a structure that is already in existence if you can, and build on the work that someone else has done," he observes.

Besides, after nine straight years of losses totaling over $10 million, Holobeam was so desperate for cash that van Roijen was able to let McDaniel run the place for three months before Control Laser committed to buy it for $1.4 million in cash. Not unexpectedly, once in charge of Holobeam, McDaniel did exactly what he did when he took over Control Laser in 1971. "I know this is going to sound funny," he says, "but with any given revenue base your first move is to cut expenses." So while Holobeam operations were consolidated with Control Laser's down in Orlando, Fla., its staff was cut from 35 to 8 and the product line from over 50 to just 6 machines.

While McDaniel was taking care of basics, van Roijen was smoothing the way for Control Laser financially with a skill few little growth companies can muster. Projecting cash needs several years ahead, he lined up credit with local banks largely on the strength of Security Storage's Washington bank relationships. "Banks are always willing to loan you money as long as you don't need it," McDaniel observes drily.

Van Roijen did run into trouble on a proposed stock offering early last year when the Bureau of Radiological Health found that Control Laser had not completed required paperwork and delayed the offering four months. That may not look like much of a problem, given the fact that Control Laser wound up raising $7.8 million on the offering instead of the $6.2 million expected four months earlier. The trouble was that an acquisi-

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tion opportunity McDaniel had been waiting for for some time suddenly arose while the offering was in limbo. British Oxygen was offering to sell its Industrial Power Beams division, producers of the type of high-powered carbon dioxide industrial lasers Control Laser needed to round out its line. "It was the opportunity of a lifetime," McDaniel recalls. "Had our offering gone on schedule everything would have been very comfortable."

But McDaniel found a way. First, he put up a deutsche mark receivable as collateral for a 1 million Swiss franc loan, which at 7.6% was far cheaper than the U.S. prime rate at the time, 17%. Being in DMs also minimized the currency translation risk. Now able to finance the purchase of Industrial Power Beams, however, he immediately ran into another problem: The U.K. hands out lucrative research grants but rarely to non-British companies. Obviously Control Laser didn't want to cut Industrial Power Beams off from that cash hoard. So van Roijen set up a U.K. corporation, Control Laser Ltd., with a capitalization of £50,000. Then the employees of IPB bought 5,000 shares of Control Laser Ltd., at £1 apiece. An English investment banking firm, Thompson Clive, bought 7,500 shares, and five British pension funds kicked in enough for another 15,000 shares. Control Laser then bought the remaining 22,500 shares. So while Control Laser wound up with the controlling block of stock, 55% of the company was in fact in British hands. All that remained was for Control Laser to loan Control Laser Ltd. £300,000 (at 15%), most of it from the Swiss franc loan (at 7.6%). The pension funds kicked in a loan of £100,000 to come up with the £400,000 purchase price for Industrial Power Beams.

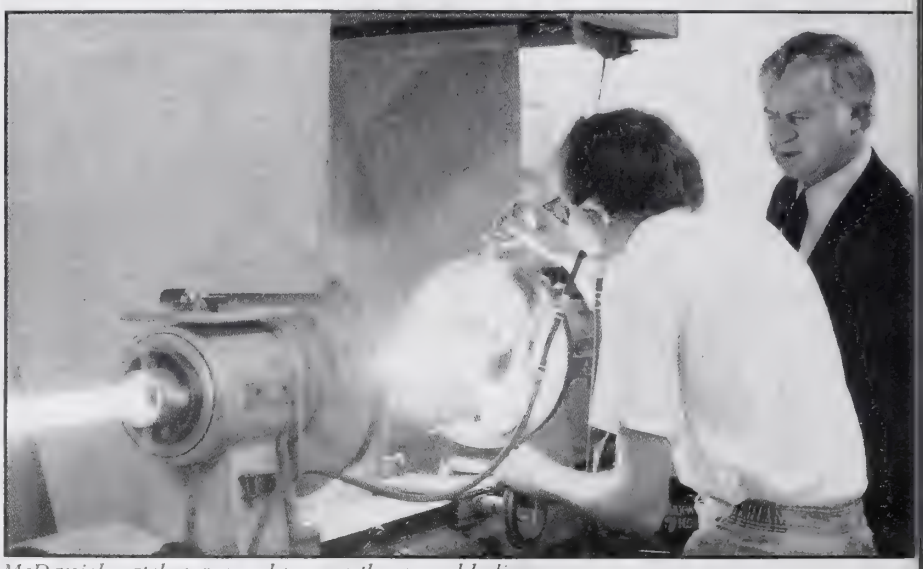
But van Roijen is sufficiently optimistic about Industrial Power Beams' future that he has arranged for ownership to revert to Control Laser in three to five years. To do that he gave British shareholders a warrant with each share that allows them to tender Control Laser Ltd. shares between 1983 and 1985 for Control Laser Corp. shares at a price of 19. Since the U.K. subsidiary's shares have no market except through its U.S. parent, the shares will almost certainly be tendered. So van Roijen looks like he'll wind up making a $1 million acquisition for slightly more than half that in cash, plus 27,500 shares of a treasury stock—less than 1% dilution.

"I've led a sheltered life," says operations man McDaniel of all these fancy financial maneuvers. But McDaniel has been moving equally skillfully when positioning Control Laser in its various markets. He has carefully avoided fast-growing military business for such applications as laser range-finders because there is little money to be made in it against the likes of Hughes Aircraft, Raytheon and Martin Marietta. The volume end of the commercial laser business today is in small scanning lasers of the type used in supermarket checkout lanes to read the universal product code markings. But again, McDaniel is not interested. Such lasers sell for about $200, the technology is simple, the competition fierce and the margins low. What McDaniel has gone after is the high-powered lasers for industrial applications where his equipment sells for anywhere from $4,000 to $150,000. Complete systems command even higher price tags: $20,000 to $400,000. Here, tiny Control Laser is a Goliath—the world's largest supplier of "solid state" industrial lasers (a reference not to microprocessors but rather to the solid, rather than gaseous, medium through which the light passes). Industrial Power Beams now gives Control Laser a promising foothold in the other important industrial laser market: carbon dioxide lasers.

Besides acquiring and turning around two other companies, McDaniel has done other things to broaden his product line and extend his marketing reach. Since 1977, for example, Control Laser has had a joint venture with Siemens AG, West Germany's electric giant, to market computer-controlled marking lasers that etch information and logos into metal. Siemens supplies the computer; Control Laser, the laser. Trading on that experience McDaniel last month unveiled a new line of industrial equipment with Control Laser-designed computer controllers as standard equipment. That's a first, he explains, because computer controllers are usually add-ons. "We want to transfer the traditionally high margins of the computer manufacturers to our own P&L statement," says McDaniel with a g

But McDaniel is very careful to av costly "blue-sky" research, perhaps cause he was once a blue-sky researc at McDonnell Aircraft. "Too often trepreneurs think there must be a pi lem for the solution they've come with," says McDaniel. "You have to a Mississippi River gambler to do t and we're not that kind of compar Instead Control Laser focuses on de opment work. "We're building Fo not Maseratis," says van Roijen. "We much more interested in developin product that is very reliable and can mass-produced as cheaply as possibl

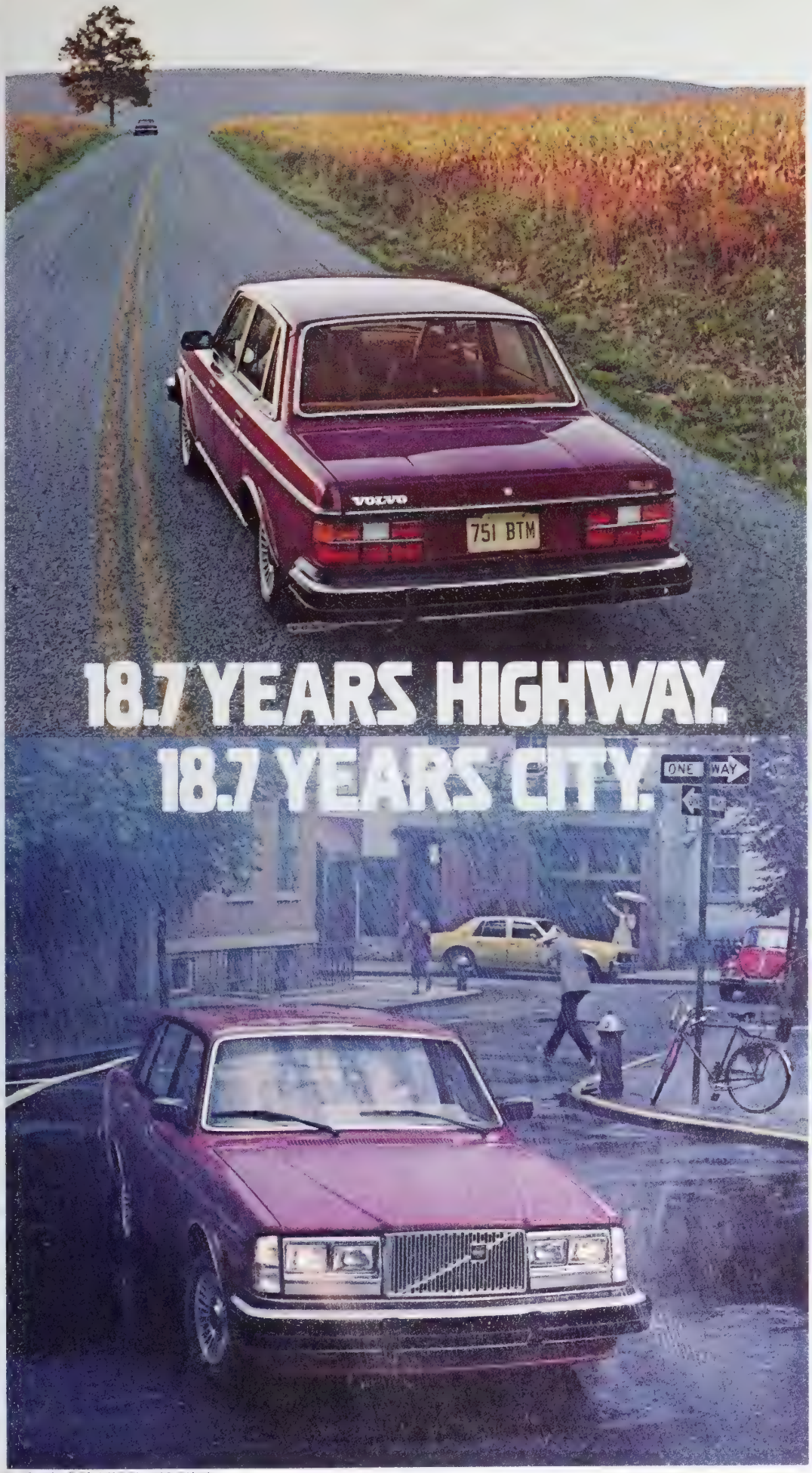
Although earnings growth slow some last year, McDaniel still pred the Eighties will be the decade of laser. That's because lasers can genui ly increase productivity in many ma facturing operations, especially o they're coupled with robots and mic processors. "You can plug a laser int production line and when the nature the job changes you can reprogram i he explains. "You can reprogram t size of the part the robot picks where it takes it, how it moves it t der the laser and what that laser d to it." McDaniel predicts that Cont Laser will soon have robotic capacity its own.



McDaniel watches a new laser on the assembly line
"We're building Fords not Maseratis."

What's Control Laser's secr "We're not technological leaders," I McDaniel replies. "We're a solid en neering house. Our strength is mai in manufacturing and marketing. have never been first into a market. prefer to follow demonstrated mark rather than trying to create them. Y blow a bloody fortune trying to gu what the market is."

Equally important perhaps is the f that for all its high-tech glamour a high-flying multiple of 35, Control ser is as lean and hungry a competi as one could wish. ■



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John Koss' mistakes were expensive, his ideas frequently ill-advised. But today he's on top of the $58 million U.S. stereo headphone market.

"I took another look in the mirror"

John Koss of Koss Corp.
"If I had to choose between street smarts and sophistication. . . ."

By Lisa Gross

DESPERATION CAN DRIVE men to try anything. It drove John Koss to float two large white lies. One day in 1965 he found himself in Milan, Italy sharing a taxi with Herman Scott, head of one of the then-largest stereo receiver manufacturers. "I knew how Herman Scott and Avery Fisher were," Koss recalls. "They lived to compete with each other, probably had spies in each other's shop, everything. So I took the opportunity to mention to Scott that Avery was planning to install headphone jacks on his receivers." Koss looks as innocent as he undoubtedly did that day in the taxi. That was his first lie. "Then I told Fisher that Scott was going to put the jacks in." That was his second lie.

It worked like a charm. Both Fisher and Scott rushed to install headphone jacks. That's why stereo receivers have one or two little holes on the front labeled "phones." Without those holes, Koss' headphones had no future. With them, John Koss had a viable business.

Fifteen years later, Koss, 51, looks back in disbelief at the stunts he pulled in the early days. With no formal education beyond high school, he shakes his head in wonder that it took him 20 years to learn the basics, nearly losing his company twice in the process. "I had the most expensive education," he says. "I could own a college with what it cost me." After turning in a 20.8% return equity last year at $23 million K Corp., Koss can say that with impuni

John Koss, you see, along with forn partner Martin Lange Jr., invented ste headphones in 1958. In fact, what sa them in their early, not exactly sal days was that nobody else wanted a thing to do with a gadge as speciali as headphones. If you wanted he phones for your phonograph—and th sands did—you bought Koss'. Who buying headphones? Teenagers, prod by parents to "turn it down or tur off." After all, it was the era of Ch Berry, Buddy Holly and Elvis Presley.

For Koss, inventing turned out to be easy part. In 1958, right before the M waukee high fidelity show, he persua Lange to install miniature hi-fi speak in standard headphones, the type B pilots and telephone operators used. T first effort, made in less than an ho looked like a Rube Goldberg inventi with chicken wire in the earpieces a red rubber tubing covering the headba But it worked. Koss wanted it as a gi mick to sell portable phonographs.

As Koss tells it, "People would file i our tiny booth, listen to the phones, a say, 'Wow, that's really terrific. How I hook up these phones on my unit?' " his elegantly cluttered office, crow with two grandfather clocks and the est in Koss audio equipment, John K laughs at the memory. "After I'd he that for a couple of days, I got the m sage. They really didn't think too mu of our phonograph. It was an easy de sion to forget the phonograph and ma phones." Four months later, Koss selling 500 headphones a month.

Unfortunately, Koss was as na about business as he was good at prom ing his product. He didn't know the f thing about finance. He'd started his f business, renting televisions to hospit with a $200 wedding gift from his p ents that was supposed to go tow buying a sofa. In 1953 Milwaukee hos tal rooms did not feature TV. "It wa captive market," says Koss. "With education, how else could I beco president besides starting my own co pany?" The TV rental business tau Koss the advantages of playing one co pany off another. "I did it with Colum and St. Joseph hospitals to get my f contract," he says. By 1958 Koss ha corner on the TV rental market, so allowed Lange to convince him that "had it too good too young and that future was in audio manufacturi which Lange wanted to get into in worst way." With $30,000 from sell the TV rental business he bought he phone parts inventory. And he raised initial headphone price from $19.95 $24.95 while still at the hi-fi show, wl he realized he had the only game town. "I figured, not being so smart a

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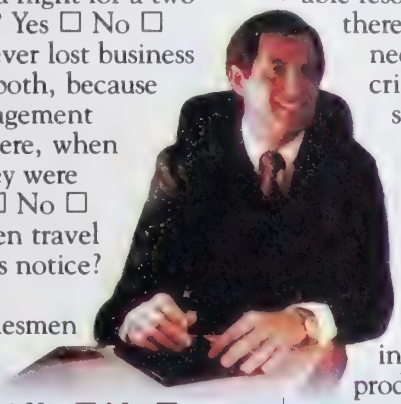

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way, I'm probably going to make some mistakes along the way," he recalls. "So I'd better cover for them in advance by charging the higher price." That was the extent of his initial capital.

Koss' main task was to talk receiver builders into installing headphone sockets. Without such sockets on receivers, Koss' customers had to install their own headphones with an adaptor kit he provided. That worked only for people handy with wires and screwdriver, of course, and to survive, Koss had to expand his market to the nonhandy. Playing Scott off Fisher solved the problem, and held off the wolves.

But John Koss began to make the mistakes he was afraid he'd make. Before giving his headphone business enough time to work out the kinks, he went on a brief but bloody acquisition binge. In 1964, he had spent $50,000, borrowed from friends, to buy a controlling interest in publicly held manual turntable manufacturer Rek-O-Kut, based in New York, then going through Chapter 11. Koss never researched his acquisition, just as he never bothered with market research in the headphone market. What he overlooked was that the manual turntable business was going down the tubes, losing out to automatic changers. So he wound up taking Rek-O-Kut through bankruptcy, which yielded an unexpected $500,000 tax carryforward that paid Koss Corp.'s taxes for nearly five years.

Undaunted, Koss charged forward and in 1965 took over another financially troubled company, Boston amplifier-maker Acoustech, for $200,000 in cash and notes, plus an initial cash infusion of $150,000 for operating expenses. Koss got taken once again. "Acoustech had great potential. All they needed was a little money and everything would be fine," he deadpans. "So they said, anyway. Almost sunk us." In the end Koss had to write off $500,000 on Acoustech. This was no small sum at a time when Koss Corp. had revenues of just over $1 million, and was trying to expand into Europe. On top of that, suddenly the Japanese discovered the headphone business, saddling Koss with his first real competition. He found himself up against the wall.

This time, Koss decided to get a little education. In 1967 he took a crash course at the Stanford Graduate School of Business, sponsored by the Young Presidents Organization. What he learned may seem a little obvious, but corporate finance was not Koss' strong suit even after almost ten years of running Koss Corp. He discovered that a quick way to bring in growth capital was to sell some stock. He had merged private Koss into public Rek-O-Kut in
retaining the Koss name, so there h
with a public company. Koss Corp.
was the former Rek-O-Kut stock
he'd never bothered to make a p
offering.

Armed with this newfound kn
edge, in November 1967 Koss Cor
fered 100,000 shares at $2.75, bringi
$247,000. The money cleared some
and brought Koss back to 30-day s
ing with suppliers. "I also got my
straightened around at the same ti
Koss says ruefully. "I shot the w
horse, got rid of the white hat. I
another look in the mirror and sa
myself, 'You're lucky you're still
and have a business. Let's get rid o
that other stuff that's been fouling u
and stick to headphones, where we
the market.' " So he closed down Ac
tech and sold Rek-O-Kut. Freed o
cash-draining acquisitions, Koss C
grew 40% annually for the next
years. By 1973, it was earning ove
million on $11 million sales.

But still the siren voices of chea
vice led Koss astray. He sighs, lookin
at the ceiling as if seeking a reaso
his recurrent madness. "By 1973, I
listening to other people say, 'Well,
know how those entrepreneurs are.
can go so far, then things collapse.
don't want to give up the top spot.
should really have one of those pr

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nal managers.' " Koss listened, then nt overboard. He brought in a profes- nal manager, Gerald Parshalle, a for- r executive vice president of Sunbeam rp. "I abdicated instead of delegating," s Koss. "I put him in an awkward ition. Parshalle had to operate the npany while learning the audio busi- s overnight. And he had to change his ole mass marketing thinking to selec- e marketing."

Koss himself found another white horse and white hat, moving down the street to save Milwau- 's last remaining classical FM radio tion, sinking $500,000—his own and bank's—into the project. Each night would drop by Koss Corp., trying to ire out why, under his much-ac- imed professional manager, sales and nings were suddenly plunging. During day he fought to save his radio sta- n investment, finally selling the sta- n in 1977 for what he had put into it. Ie made it back to Koss just in time to tch it from the brink. While Parshalle s killing time reorganizing Koss, Ja- n-based Pioneer, 10 times Koss' size, s muscling into the headphone mar- . "We should've developed new prod- s. It was the wrong time to rest on our rels," muses Koss. That's an under- cement. Earnings were down to ,558 by 1977, on $18 million in sales, ieasly 0.3% return on assets.

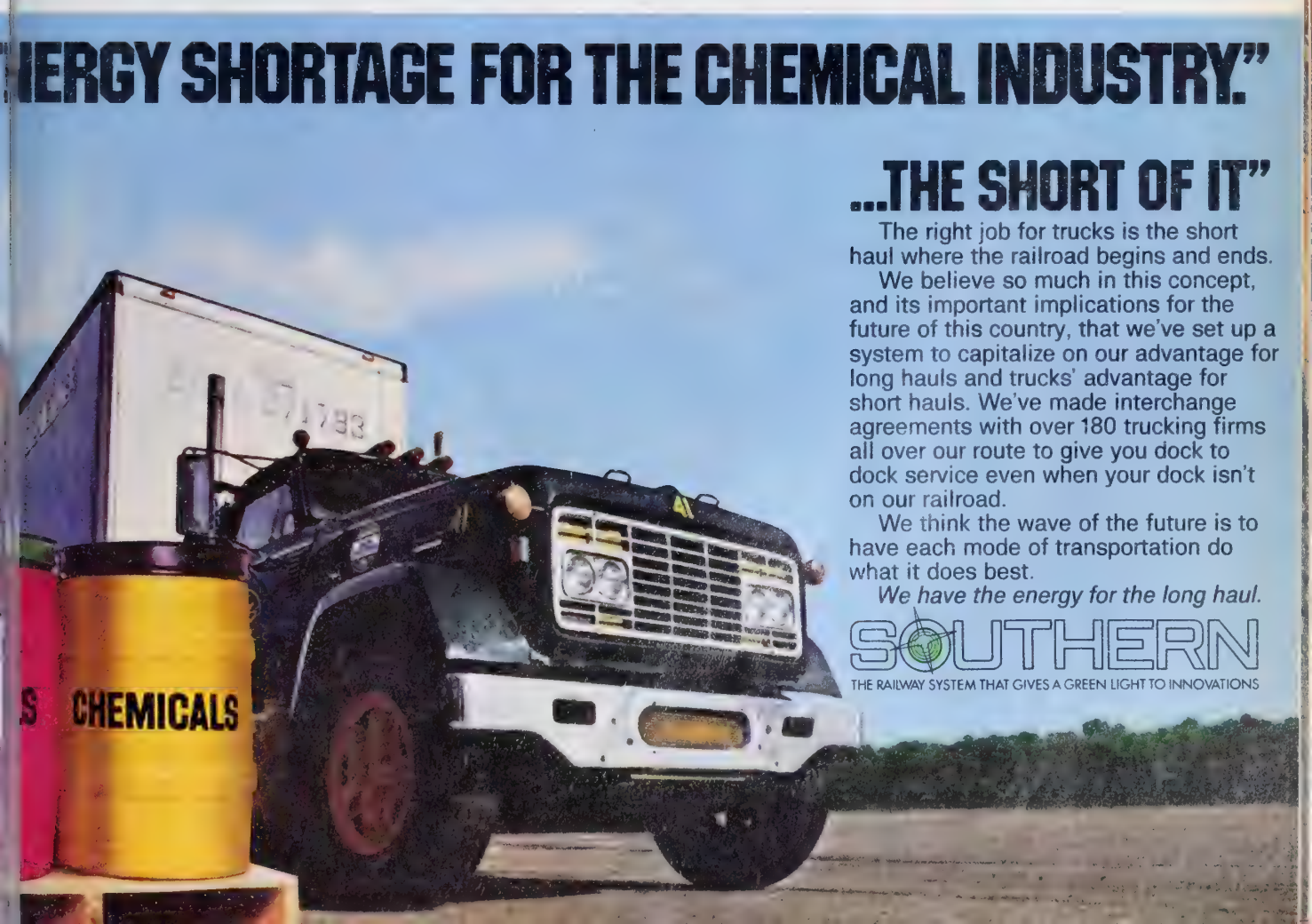
He dumped the president, dumped some old products, and brought out such new ones as the HVX lightweight phones and stereo speakers. With John Koss back in the driver's seat, happily promoting his headphones, earnings zoomed to $700,000 in 1978, over $1 million in 1979, and $1.7 million last year.

Today, Koss controls over 40% of the $58 million domestic stereo headphone market and is fighting hard to keep it, borrowing a few ideas from the Japanese, his biggest competitors. In 1977 he instituted cash profit-sharing for Koss' 300 employees, plus an Employee Stock Ownership Plan (ESOP). Each quarter, all Koss employees file excitedly into the company cafeteria to receive their profit-sharing check from John Koss. Last year, he handed out $78,000, or 5% of the company's pretax earnings. Employees own 15% of Koss stock under the ESOP, and Koss himself controls 42%. But the most Japanese idea Koss has implemented to date is his tenure policy, under which all hourly workers with two years' service are guaranteed lifetime employment.

In 1979 he hired President James Dodson, who has the financial background Koss lacks. Can the company achieve the 15% minimum growth Koss projects through 1986, and diversify into other audio products as well? After all, Japan, with Taiwan, makes 85% of worldwide audio products. John Koss worries about the Japanese, but so far his fears have proved groundless. "In recent years, they've seen high enough volume that they're putting time and effort into headphones," he says. "But we're ten years and 10,000 retail outlets ahead of them," Koss adds confidently. The trick, of course, is to remain the low-cost producer. And here, Koss' generous employment policies may start paying off.

So John Koss is feeling secure these days. His company is turning in impressive results, surprising the analysts. His president is minding the books so Koss can do what he loves best—sales promotion. Koss Corp. is capitalizing on his talents by expanding the product line beyond stereo headphones and high-end speakers. This summer Koss will introduce a pocket-size portable stereo AM/FM receiver, à la Sony's Walkman cassette player, priced at $89.95, *vs* Sony's $179.95. Sony's includes earphones and a second phone jack, which Koss hopes will be plugged by his latest product, a miniheadphone. Priced at $39.95, it puts his company into the broader, more lucrative low-end audio market. Now Koss is even talking about branching into video.

Can he do it all? "Of course we can," Koss replies. "If I had to choose between street smarts and sophistication in this business, I'd choose the former. But finally, we have both." ■



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Is Carnation discontented?

By Michael Kolbenschlag

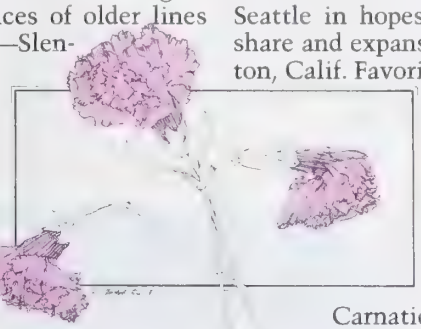
LATER THIS MONTH WHEN H. Everett Olson, the silver-haired, 74-year-old chairman and CEO of Carnation Co. convenes the 82-year-old company's annual meeting in the cafeteria of its ice-cream white Los Angeles headquarters, he'll have an uncharacteristically active year to tell shareholders about—if he chooses to do so.

Carnation in 1980 seemed to return to the form that made it an industry leader in branded foods in the days of Chairman Elbridge H. Stuart, the founder's son who died in 1972. Stuart publicized Carnation as the "milk from contented cows" and made the company's Friskies pet foods market leaders in the Fifties and Sixties. Under Stuart, Carnation introduced the first instant milk and also Coffee-mate, the nondairy creamer, and Instant Breakfast drinks.

Olson, a Chicago-born, Northwestern University-educated accountant who had been with Carnation since 1931, became chairman in 1971 but has actually been running the $3.2 billion (sales) company since 1968. Until last year, however, new products had become increasingly scarce. He gave security analysts so little to chew on that many stopped following the company. But he did get into nonfood diversifications. In 1973 Olson paid $32 million in stock for Indianapolis-based Herff Jones Co., the $43.5 million (sales) manufacturer of Josten's class rings. Later that year, when he announced that Carnation would buy Ampte Industries, a Denver-based manufacturer of truck trailers, Carnation stock tumbled precipitously and the acquisition was quietly scuttled.

Olson, say his press spokesmen, likes to stand on his record—an outwardly attractive one. Carnation's 1980 sales and earnings again hit record levels, the 28th consecutive year of earnings increases. Earnings rose 12.1%, to $155 million, or $4.15 a share on a 14.5% gain in sales. Record earnings of $4.60 are in sight for 1981, say analysts like William Maquire of Merrill Lynch.

But that performance seemed to be based more on a successful past than a confident future. Olson raised margins by steadily hiking prices of older lines that were in decline—Slender Diet food products, for example, that are now out of fashion with nutritionists; even condensed milk. Carnation began with condensed milk, in Kent, Wash. in 1899, selling the nonspoilable product to prospectors heading north to the Yukon gold rush. In recent years, as unit volume has declined 5% to 6% a year, Carnation has raised the price 8% to 10% a year. Olson even cut the advertising budget from 1977 to 1979.



All this mystified analysts and the institutions. Carnation's price/earnings ratio was 30 in 1972 but is trailing the industry average at 6 today.

"Carnation's hallmark had always been product development," explains Lawrence Adelman, vice president of Dean Witter Reynolds. "But in recent years new product flow came to a standstill, and the payout ratio was increased so much that it seemed they didn't have investment opportunities. They began to maximize short-term earnings, almost saying 'Please take us over.' "

Olson raised Carnation's dividend from 44 cents a share, 26% of earnings in 1973, to $1.66, 40% of earnings last year. He had one major shareholder to satisfy with those dividends, the E.A. Stuart Co., which owned 44% of Carnation's 37 million shares. This holding company is the repository of Stuart family trusts, stock-owning charities and foundations. Its role may have been central to the disappointments of Olson's tenure. Did E.A. Stuart demand those increased dividends, even at the cost of reduced spending for product development?

Olson isn't talking but it seems plausible in light of his apparent sudden actions in 1980. He began the year by winning a vote of E.A. Stuart Co.'s trustees to dissolve the holding company, distributing the Carnation stock among the trust holders. Family members agreed to sell no more than 9% of their Carnation stock per year over the next ten years. Olson at the same time moved the company's listing from the American Stock Exchange to the New York Stock Exchange and pledged that Carnation would initiate a program of repurchasing up to 1 million of its own shares, partially offsetting the overhang of family stock that is likely to come to the market.

Once the Stuart Co. was dissolved, Olson commenced a new product barrage that would have done Elbridge Stuart proud: a new cat food called Fish Ahoy, a dog food called Come 'N Get It, a childrens' cocoa named Marshal Mallow and a new line of frozen french fries. Milk and ice cream facilities were expanded in Seattle in hopes of recapturing market share and expansion began at the Fullerton, Calif. Favorite Foods Yogurt plant in what is regarded as a prelude to a major thrust in yogurt.

Why the sudden rewakening? Rumors last year that Switzerland-based food giant Nestlé S.A. was eyeing Carnation withered with no visible action. None of the Stuart family is talking, not even Dwight Stuart, the 56-year-old son of Elbridge who is now president and due to become CEO when Olson retires in a year or two. Perhaps he and Olson will speak to such questions at the Apr. 22 annual meeting.

Meanwhile, Carnation has ground to recover in its basic business. In dairy—46% of sales—Carnation has no premium yogurt—a growing, high-margined $600 million market. In pet foods—20% of sales—Carnation is an also-ran to market leaders Ralston Purina, Liggett Group and Heinz. In grocery products Coffee-mate is hard pressed by private labels. And in instant breakfast drinks Carnation remains number one but consumers are switching to breakfast bars where General Mills outsells Carnation three to one.

But in a company with a strong brand name like Carnation, things can turn around fast. The stock market took Carnation to 29¼ recently, near its high for the last two years.

H. Everett Olson clearly is approaching the close of a long career at Carnation. It would be interesting to hear his account of recent years, but Olson's not much of a talker. Which is probably why people tend to question whether he's a doer. ■

If anyone can bankroll a winning retailer in the home video war to come, it's cash-rich Jack Eckerd Corp. of drugstore fame.

Tuning in

By Thomas Jaffe

EVERY COMPANY SHOULD HAVE A problem like $1.7 billion (estimated 1981 sales) Jack Eckerd Corp. of Clearwater, Fla. The second-largest drugstore operator in the U.S. behind Revco D.S. Inc., this 1,116-strong chain will net around $78 million by the close of its fiscal year in July. That's a 4.4% profit margin, the best in the business. Eckerd has been the drugstore profit leader for over a decade, of course. But Jack Eckerd—also in department stores, which accounts for less than 10% of sales and earnings—hasn't seemed to figure out what to do with all the cash that drug business throws off. Last year, $76 million was left over; in 1979, $80 million—2½ times the amount left in the till as recently as 1975. With Eckerd common trading at 11 times earnings, that could get downright dangerous if it keeps up.

To handle its riches, the company has been adding an average of 10% more stores a year to its drug chain (90% are located in seven Sunbelt states). It has also been building distribution centers. Meanwhile, unable to find other fast-growing specialty retailers to acquire, it has plunked whatever it couldn't spend into money market instruments and collected hefty interest payments. But by 1979 Eckerd already was predicting more "modest" 15% annual earnings increases for itself in the early Eighties—down from the better-than-18% rate it enjoyed during the Seventies.

That very year it came close to buying Brooks Fashion Stores, then a $114 million junior women's apparel chain. But the deal fell through and the company kept on looking. "We haven't exactly been hipshooters in the acquisitions game," admits Stewart Turley, the tall, dapper 46-year-old chairman and president who took over from *the* Jack Eckerd in 1974 when the entrepreneur unsuccessfully ran for the U.S. Senate.

Now Stewart Turley has finally taken the six-shooter out of his holster. Last month Eckerd agreed to acquire American Home Video Corp., a privately held Englewood, Colo.-based retailer of home video equipment and programming, for about $80 million in stock. Founded in 1978, AHVC is the only large specialty chain of its kind in the U.S., operating 61 stores in regional malls in 22 states. Its locations range from Ogden, Utah and Rockford, Ill. to Houston and Philadelphia. If Turley was hunting for a growth market, he certainly found a doozy. In 1980 total home-video-related sales were estimated at nearly $3 billion; by 1985, this could triple. One indication of how big the bets are that this business will take off: In March RCA launched its video player and discs armed with a $20 million-plus promotion budget.

Stewart Turley of Jack Eckerd Corp
The six-shooter comes out of the holster.

Eckerd had been in contact with AHVC, but when Stew Turley found out L.F. Rothschild, Unterberg, Towbin was preparing to underwrite a $25 million offering at an estimated $10 a share ing AHVC public, he quickly arrang meeting with its management, an deal was struck in ten days. "I guess could say we kind of intercepted the chuckles Turley, a former plant man at Crown Cork & Seal Co. who has b with Eckerd since 1967.

Exactly what is Jack Eckerd gettin AHVC? Last year the company br even on around $21 million in sales. its 61 stores, 59 were opened in 1 alone—many just in time for the Christmas season. In 1981 as many a more may open. (Much of the proce from the public offering would have nanced this expansion.) It seems to t these 3,500-square-foot stores about n months to get running smoothly, a which they generate between $1 mil and $2 million in sales a year. The Ho ton outlet, opened in 1978, already doing that well.

Arrayed against AHVC is the fami competition of department stores, el tronics shops, discounters and the thr that other retailers may start their o home video chains. There is bound to sharp price-cutting between competit manufacturers of video players, dis wide TV screens and the like—an game in consumer electronics. It's ready happened in the $850 million v eo cassette recorder market, and a sha out is taking place amo those retailing the pr ucts. Turley freely knowledges that su risks exist but is bett on the fact that AHVC ready has market posit and that its personnel trained to make the " phisticated" sale; a s vice, says he, that custo ers will appreciate as th are forced to navig their dollars through welter of unfamiliar hi ticket items in a bra new technology.

From American Ho Video's point of view, ing taken on by a successful rich retai like Jack Eckerd is perfect. Like a startup operation trying to expand quickly as possible, AHVC has been d perate for capital. Since late 1979, t principals from a Colorado oil- and g drilling company have invested some million in return for stock. Then in private placement last October the ve ture capital arms of Continental Illin and Citicorp anted up $2 million apie once again taking stock. And just t months ago there was another su placement for $2 million, with Con nental Illinois investing $600,000 mo

Naturally these newer shareholde were all for Eckerd's offer. Instead diluting the value of AHVC's nearly 12

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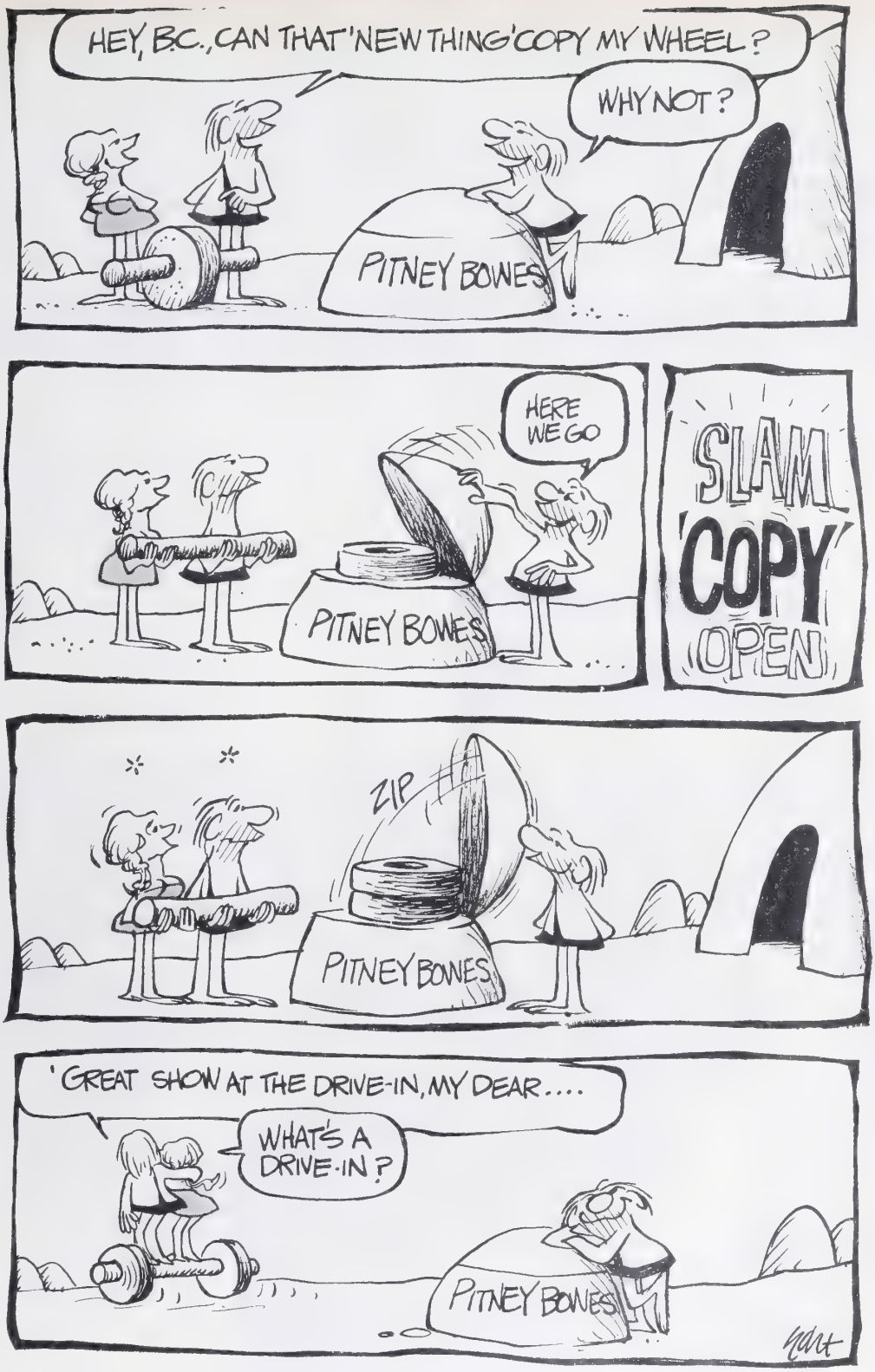

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million shares even further through a public offering, these big stockholders are letting Eckerd buy them out for the equivalent of around $6 a share. Each AHVC share will convert to 17½% of an Eckerd share, recently selling at 34⅛, or twice book value. The rub is that, while funding AHVC's growth will indeed soak up some of Jack Eckerd's excess cash, the acquisition will dilute Eckerd's earnings. Anxious to avoid paying a big capital gains tax on the transaction, AHVC shareholders understandably won't take cash. So Eckerd must issue 2.2 million new shares, close to a 10% increase in its present float.

According to Walter Loeb, retailing analyst for Morgan Stanley & Co., in fiscal 1981 this dilution should cut earnings by around 9%, to some $3 a share; in 1982 hold them down 5%, to $3.60 or so. Not until 1983 could AHVC add even 10 cents to the $4.45 Eckerd may net by then. As it probably would net that extra dime just by sticking to drugstores, is t entry into home video really worth it?

"Some feel the purer we are the bet we'll be," says Turley, "but I wa growth, and the home video industry only emerging—unlike, say, drugsto chains. It's also possible we may diver fy again, though I wouldn't anticipa that anytime soon. We're going to p ceed conservatively. But when they lo at AHVC a lot of people may think I saying that tongue-in-cheek." ■

Move over Asteroids and Defenders, the next adversary in the electronic video game wars may be even tougher to beat.

Japanese invaders

By Jonathan Greenberg

A GROUP OF WELL-SUITED corporate executives stands huddled around a video screen in a Times Square arcade. Mesmerized, grown men watch as a dozen red missiles fall from the top of the machine, only to have their progress disrupted by a swift series of colorful explosions. The spectators congratulate their colleague on a good round, secretly wishing that he'd missed and had his bases destroyed in a thermonuclear attack. Lunch hour is almost over, no one has beaten the sinister computer, and addiction to Missile Command makes an afternoon at the office without one last game seem unbearable. The stakes have risen since the pinball days of yesteryear. Electronic video games are serious business.

Electronic video games are also big business. Since 1977 sales of coin-oper ed games in the U.S. have grown fr next to nothing to over $500 milli annually. At 25 cents a round, custom feed the machines at least $1 billion airports, movie lobbies and newsstan nationwide. Revenues of the nine-ye old home game industry, meanwhile, $350 million last year.

The leading beneficiary of this add tion is Warner Communications, whi owns video game market leader Atari. the past year, fueled largely by Ata Warner's stock has shot up by 65% a the company is a Wall Street favori Competitors include Gulf & Weste (which owns the Japanese compa Sega), Bally Manufacturing and Williar Electronics (a spinoff of Xcor) and small, Florida-based firm called Centu Some of these firms have roots in t pinball business—often an unsavory a tivity—but their current growth exci investors.

Shortly before electronic games to off in the U.S., however, a similar ma ness struck Japan. Some 40 compani scrambled to build hundreds of tho sands of coin-operated video machin to compete with Taito Corp.'s red-h Space Invaders. Permissive patent la allowed widespread conceptual theft, a by last year the market was saturated.

Formerly, Japanese companies we content to license their products to U manufacturers. Why export when d mestic demand was strong? But no things have changed: Space Invaders' c lestial threat is old hat. American gar manufacturers must take on the hig tech invaders from Japan.

"I have never taken the Japane threat lightly," jokes Raymond Kass Atari's 53-year-old CEO. Kassar can ford such humor. Warner picked Atari, the first U.S. coin-op video man facturer, for $28 million in 1976. At th time Atari had sales of $40 million a an anticipated annual growth rate 20%. By 1980 Atari emerged as Warne flagship for the future. On sales of abo $435 million, pretax earnings hit $ million—29% of its parent's operati income. Kassar projects Atari will ea $120 million this year on sales of ov $600 million.

Atari is the only U.S. manufacturer

The lure of the game
Nuclear missiles for lunch.

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Games addicts play

You drop a quarter into the slot and instinctively rest one finger on the fire button, another on the thrust activator and two more on the directional controls. The 6-foot machine silently comes to life and you're ready for it. You're in command. The computer in the electronic video game known as Asteroids is going to do everything in its power to destroy your ship, and you're going to use your mortal skills to decimate everything it throws at you.

Four large asteroids, each an inch in diameter, float across the screen. Your ship is tiny but packs a mighty punch. Lining one up, you press the fire button—sending a line of white dots into an oncoming asteroid. It explodes, breaking into two medium-size asteroids. Your follow-up blasts break each of these, which also explode into two smaller fragments. Before you know it there are dozens of asteroids flying in all directions. With the thrust button, you maneuver away from them. But just when you begin to wipe most of the asteroids off the screen, terror strikes: An enemy ship appears. It attacks, with a computerized homing aim. In a scramble to evade, you accidentally run into an asteroid. The game, which takes about five minutes to play, is soon over. You fumble frantically for another quarter.

This scene is repeated millions of times each day in arcades and shops across America. If the game isn't Asteroids, it's Berzerk, or Defender or Pac-Man. If a machine catches on, it spawns addicts. Fans of all ages play regularly, often for months, to master a particular game. Preproduction models go into test markets to gauge popularity. One sure sign of a winner is a game's difficulty. Location owners look for "fast quarter" models that can defeat novices in less than two minutes.

"A hot video game brings in 2 or 3 times what a hot pinball machine makes," says Steven Epstein, owner of New York's Broadway Arcade. His 60 video machines grossed nearly $500,000 last year. "I've got limos in front and neighborhood kids here at the same time."

An expert on coin-op machines, Epstein buys his units outright and judges their popularity according to resale value. "I just sold an Asteroids for $1,600; I paid $2,000 for it a year ago and have made $10,000 with it since then," he explains. "Depreciation is negligible." Epstein currently likes Williams' Defenders and Stern's Berzerk. But he complains that some games, such as Atari's unsuccessful Battlezone, have a life span as short as two months.

Coin-op manufacturers, of course, are all too aware of their tenuous hold on success. "There's nothing consistent about this business," concludes Jim Pierce, president of Cinematronics, which makes a popular game called Star Castle. "If you've got a game that makes good money you're going to sell all you can make. If your games are not in the top ten you're going to eat them."—J.G.

both coin-operated and home video. Thus, it can afford to spend big on product development—an estimated $20 million last year. Unlike Bally's Midway, which has licensed its games from Japan, Atari breeds its own hits, such as Asteroids. At $2,000 a unit, Atari has made about $140 million from that game alone. And a deluxe version is on its way.

Roughly 65% of Atari's revenues comes from home game systems and cartridges. A basic unit retails for about $165 and plugs into any television set; cartridges go for $20 to $30, and there are 43 available. Warner executives boast that they control 80% of the home video market and 50% of the coin-op segment, though rough-and-tumble competition has cut Atari's lead there, and its current share is probably closer to 25%.

The home market will probably fuel the company's growth over the next five years. Only 4% of U.S. households with televisions currently own a video game, so the potential is immense. In 1980 Atari sold about 1.25 million players at $125 each. Its nearest competitor, Mattel's Intellivision, introduced a more expensive home system last year, sold out its 200,000 units and has yet to restock retailers.

Mattel Electronics' President Joshua Denham hopes to increase sales by 150% this year. "Our product has the ability to do things that Atari's does not," says Denham. One major retailer is more explicit: "Atari's not even close to being authentic, especially in the sports games. When you show both machines, it's going to be quite obvious which is better."

Kassar counters that Atari's surpasses Mattel's in "playability." Intellivision's sophistication, he believes, will turn off customers who don't want Mattel's whiz-bang effects. He may be right. Kim Mayo, a 24-year-old nurse, recently opted for Atari instead of Mattel, unimpressed by Mattel's potential as a personal computer. "I don't have a business at home," she explains.

A third contender is N.A. Philips' Magnavox, which introduced Odyssey, the industry's first home system, in 1972. Odyssey II is the industry's least successful unit, although its early entry and strong distribution channels are an asset. Critics complain of Maganavox' sleepy marketing attitude and say the company is too busy promoting videodiscs to give Odyssey II the attention it needs.

Survival in the coin-ops is likely to be much more difficult. There is no follow-up cartridge business, and at the moment competition is stiff. The success of Space Invaders and Asteroids has made the games wildly popular in outlets that traditionally steered clear of pinball machines. What's more, one game can gross $500 a week—a handsome sum even if 60% goes to a distributor. One Manhattan newsstand operator, for example, claims he earns more from his two video games than from the sale of newspapers.

Still, a shakeout among producers is already in the works. Apart from the Japanese, recent new entrants include three major pinball manufacturers—Williams, Stern and Gottlieb. Williams and Stern both blasted into the market last year with major hits, while Gottlieb burned its fingers and may wind up as an early casualty in the game wars.

The Asian invasion, however, could be even more deadly: Nearly all U.S. game companies license some electronics from the Japanese. Although their share of the U.S. market is now less than 10%, it will grow fast. Three big Japanese companies—Taito, Universal and Sega, a subsidiary of Gulf & Western—have recently opened U.S. manufacturing facilities and each is importing hundreds of machines monthly.

In December, Nintendo, a $100 million-plus Japanese coin-op manufacturer began exporting to the U.S. and now ships 2,000 games a month. The only major Japanese producer that still limits its U.S. business to licensing is Namco, which has supplied Midway with all of its recent hits. Its 10,000-square-foot Silicon Valley office is, however, vastly oversized for its current two-person staff.

There are indications, too, that the Japanese invaders might not all be playing by the rules. Copies of popular American games are being manufactured in Japan and sold here at cut-rate prices. Only the names of the games and the artwork are changed. "There is a racket in L.A. that imports knockoffs of Williams' Defender and sells them $400 cheaper than the American-made machine," says Ed Adlum, publisher of the trade journal *RePlay*.

"Two years ago," says one industry expert, "we had no Japanese manufacturers in this country. Now they are coming on very strong. Soon they may even outnumber the Americans." If that's correct, Wall Street's fascination with electronic games may end abruptly—just as a session of Space Invaders stops when the tide of aliens destroys the last defender on earth. ■

There seems no limit to the search for oil and gas. But newcomers should study how the Laborde brothers built ODECO and Tidewater.

Wild dreams and hedged bets

By Toni Mack

THE BOOM IN OFFSHORE oil exploration is building to a frenzy. There are over 500 drill rigs at work in the world's waters today—155 of them in the Gulf of Mexico off Louisiana and Texas—and 218 new rigs on order at shipyards worldwide. Money to support more oil and gas exploration and production is pouring into the Gulf Coast.

Yet Ocean Drilling & Exploration Co., the world's largest offshore drilling contractor with 40 drill rigs, has only one new rig on order. And Tidewater Inc., the leader in offshore supply with 394 boats, has only modest plans for new orders.

"The ability of contractors to overbuild is incredible," says President and CEO Hugh J. Kelly of ODECO. "The commitments being made at shipyards are such that the current boom has to last eight years—and that's unheard of—for the builders to make it."

He sees opportunity. "I'd say a downturn is inevitable, and when it happens I think we can expand our fleet to 60 or so rigs, more if things get really bad."

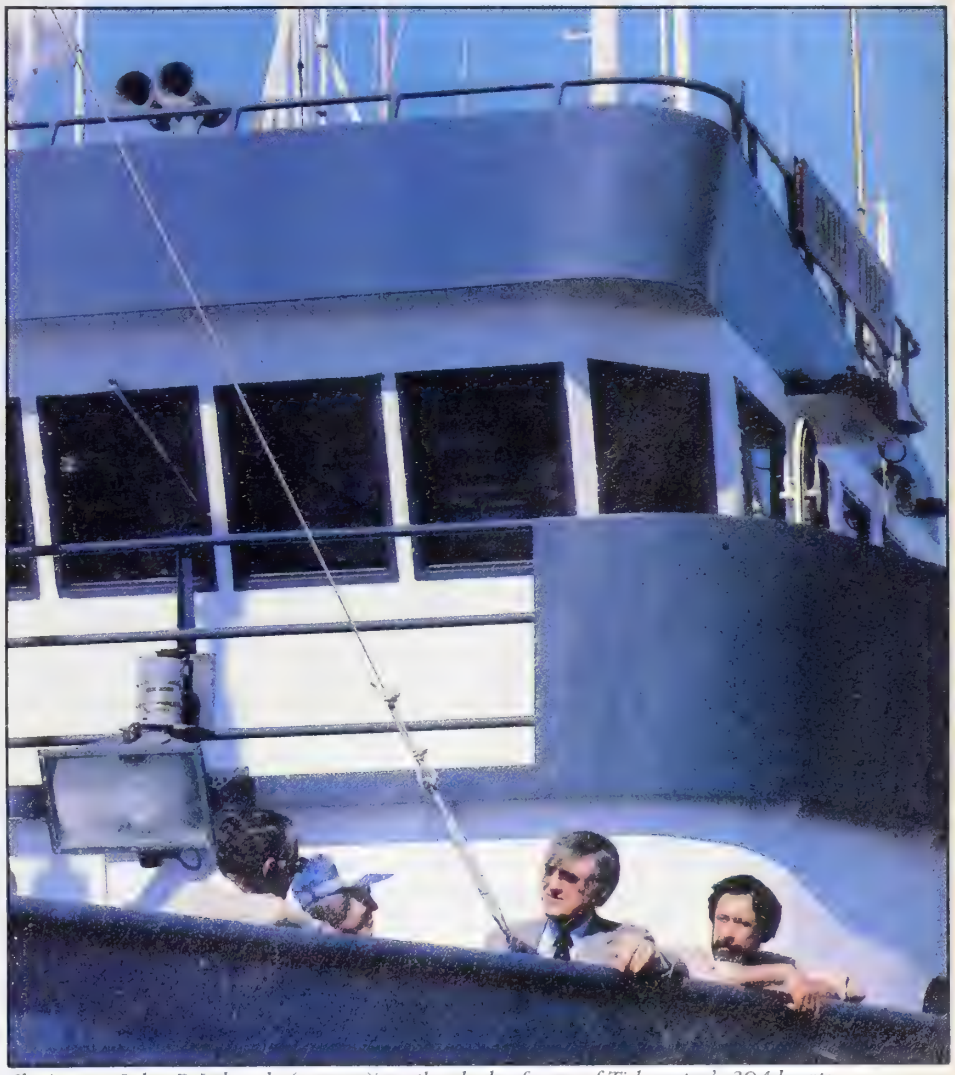
Kelly thus is carrying on the successful policy of the founders of ODECO and Tidewater, a pair of remarkable brothers named Alden J. and John P. Laborde.

Few outside the oil business have ever heard of them, but the Laborde brothers practically invented the offshore oil service industry. They have built companies with market values of $1.8 billion (ODECO) and $710 million (Tidewater). In its fiscal year ended Mar. 31, Tidewater earned about $52 million, or $3.21 a share, on $350 million in sales—a 60% gain in earnings on a 30%-plus rise in sales. ODECO last year earned $135 million, or $2.67 a share, on sales of $721 million—increases of 154% in profits and 72% in sales. Tidewater's return on shareholders' equity is 26%, ODECO's a running 38%.

By oil-country standards, the Labordes are not superrich. The combined worth of their ODECO and Tidewater stockholdings, plus those of a third brother, C. E. Laborde Jr., come to $30 million. But they aren't complaining. The sons of a school superintendent in Marskville in the south Louisiana Cajun country, they now enjoy family homes with interlocking walkways on a plantation near Marksville run by a fourth brother and offices at the top of modern buildings overlooking New Orleans' fabled French Quarter.

"The Cajun people don't make a lot of money, nor really care about that," says John Laborde, 57, the courtly chairman and president of Tidewater. He recalls the Cajun culture of his upbringing as "a basic leisure-loving, joie de vivre atmosphere. The parish church was the biggest thing going. And food. People there really get into good food and 'Whatcha gonna have to eat next Saturday?' " The brothers left that culture for the big world, first to college and good jobs and then to build, by chance and foresight, two of America's premier companies.

It all began in 1952 when Alden Laborde, a marine superintendent for Kerr-McGee Corp., proposed to build an offshore drilling rig. Oil companies then were looking for an economical, reusable drilling rig to help them get at the oil and gas they believed lay beneath the Gulf of Mexico. Alden had seen such a rig at work in the sheltered inlets of the Gulf. Composed of a drilling platform attached



Chairman John P. Laborde (center) *on the deck of one of Tidewater's 394 boats*
"You're absolutely nuts," he was told.

by long, hollow steel columns to a hollow lower hull, the rig could be floated from drill site to drill site. Once the lower hull was flooded with seawater, the rig rested securely on the ocean floor. Alden, an Annapolis graduate and Navy veteran, thought a larger version could succeed in the harsher waters of the open Gulf. Kerr-McGee disagreed.

"I showed the idea to all the oil companies around the Gulf—Shell, Gulf, Humble [now Exxon], Magnolia [now Mobil]—and their engineers said it wouldn't work," recalls Alden, a tall, spare and brisk man. "I had no proof. It was more hunchology than technology."

Finally he heard that Murphy Oil, a small El Dorado, Ark.-based company, was looking for an inexpensive way to get into offshore exploration. Alden went to El Dorado, where Chairman Charles H. Murphy Jr. listened patiently and put up $500,000 toward building the $2 million rig. (Today, as Murphy Oil's 53% stake in ODECO, that initial investment is worth nearly $1 billion.) With Murphy's commitment in hand, Alden got $500,000 from ten other investors, got a loan for the rest, and ODECO was born.

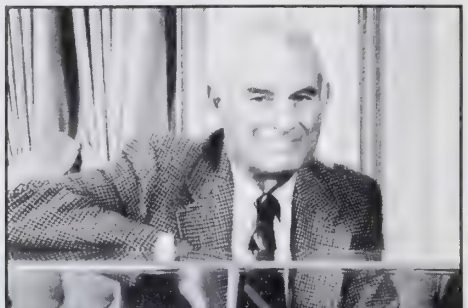
On June 30, 1954 Mister Charlie, the world's first submersible drilling rig, went to work. It's still working today. Since then ODECO has pioneered most advances in rig technology.

But, for all his "hunchology," Alden had a backup plan in case anything—Mister Charlie or the industry—went sour. No matter what type of offshore rig was used, he figured, it would require supply boats to carry crews and provisions to and from shore. He designed a boat with the pilothouse up front, leaving the rear deck clear for loading.

His boats became an instant hit in the increasingly active Gulf, and within two years Alden and nine investors had built three of them. But Alden then had two businesses going and Charles Murphy, who had no money in boats, wanted his full attention in ODECO. Alden agreed to sell his interest in the three boats to his older brother C.E., who in turn asked their youngest brother, John, to take over the boats and organize them into a company called Tidewater. John consented, even though it meant giving up a bright future as a lawyer for Ft. Worth, Tex. oilman Sid Richardson. "I told my boss, and he said, 'You're absolutely nuts,' " says John, in his New Orleans drawl. "I said, 'I know it's just a wild dream, but I've got to give it a whirl.' "

The Laborde brothers forged strategies that recognized offshore exploration as a boom-or-bust business. At ODECO, Alden—now 65 and retired—had no choice: Oil and gas was to mitigate the drilling downturns. Charles Murphy was determined to make ODECO live up to the "exploration" in its name, earning interests in oil and gas deposits by drilling wells for free. With Murphy arguing for oil and Alden for rigs, the two played tug-of-war with ODECO's capital budget for years. Alden went two decades without finding a gusher that made money in the days of $2-a-barrel oil. But Murphy wouldn't let him drop it.

Meanwhile, John was building Tidewater. "One day in 1957, I walked out on the docks," he recalls, "and 7 of our 12 boats were idle. That was a very sobering thought. It was obvious that we needed some kind of work that went on week after week, year after year." He saw that the production side of the business—constructing production platforms, drilling development wells, maintaining producing wells—was far less volatile than exploration, so he thrust his boats into production service. Today 65% of Tidewater's marine-service sales and profits come from supplying development and production.



ODECO founder Alden J. Laborde
He started with "hunchology."

Alden and John also thought up a way to ride the cycles: Build as much new equipment as possible during the downturn, but never build when you can buy older, less costly equipment. John notes with pleasure his recent purchase of two 2-year-old tugboats for $2 million each, a price less than half of new construction costs, and Alden proudly points out that over half of ODECO's fleet was bought, not built.

In 1974, at the start of what was to be a five-year trough in offshore drilling, Alden had his biggest—and last—argument with Charles Murphy. Alden had found a drilling contractor with 14 rigs for sale at the cut-rate price of $137 million. But 1974 was also the year that ODECO's gusher finally came in: A North Sea field called Ninian, in which Murphy Oil and ODECO each had a 7% interest, was confirmed as a 1.2-billion-barrel giant. The catch was that each had to invest a projected $150 million—later raised to $250 million—to develop the field. With ODECO's total equity at only $157 million, taking on both projects scarce seemed possible. Alden proposed selli ODECO's Ninian interest. Murphy i sisted on forgoing the rigs. In the en they did neither. They anted ODECO share for the Ninian field *and* bought tl rigs. Alden borrowed massively (triplir ODECO's long-term debt), sold interes in rigs and went to the equity market f $40 million at a time when the con pany's earnings were declining. But Ni ian came in during 1979, a year when tl drilling market was up as well. ODECO earnings leaped 91% that year.

Today each admits the other stron willed man was right. With ODECO no getting 60% of its earnings from oil ar gas, Murphy told a group of analysts r cently: "Just before and during the d pressed period of 1975 and on to la 1979, after careful analysis and some i ternal disagreement—I was wrong—w quietly bought 13.5 net rigs. With 20/2 hindsight these were outrageous ba gains." Murphy sent a copy of the speec to Alden, with a note attached: thought I was due to eat some crow Alden has a gracious appetite, to "Charles was right," he says. "We wou have been selling off $3 oil, and no we're selling it at $40."

Tidewater, too, has invested in explor tion, and today 20% of Tidewater's ear ings come from oil and gas. Tidewater, h explains, has reached a sort of critic mass that allows it to fund new constru tion continuously. "Because so much o our fleet is paid off," he says, "the old boats can always carry the new boats f nancially. By the time the new boats a five years old, their return starts escala ing and makes the newer ones justif able." In the last five years he has spe $222 million to replace worn-out boa and expand the fleet from 373 to 39 boats. Now, true to form, he is slowir down new construction during the boon John contemplates Tidewater's longe term future these days, too, offering a offhand thought of ocean shipping for th day when oil and gas decline.

Alden Laborde, wearied by the strife o the 1970s, stepped down as ODECO chief executive on Jan. 1, 1977, at 61. H remains a director. The man who inven ed an industry now spends much of h time traveling, recently visiting the Ind an ruins of Guatemala. Hugh Kelly, wh joined ODECO in 1957 at the recon mendation of former law classmate Joh Laborde, is plunging deeper into oil e ploration, taking advantage of the con pany's Ninian-fed cash flow—over $40 million this year.

"We can afford to roll the dice in big way," says Kelly. But as his pa tience amid the drilling frenzy show Kelly, too—like his friends the La bordes—understands that great bus nesses survive by hedging bets an looking to the long term. ■

zi of Scitex: "Never in my life did I sit in any meeting lasting more than two hours, or stay on the phone all day."

i Arazi is a high school dropout who talked s way into MIT. Now, his Israeli company lls a computer system with massive potential.

Like Edwin Land— but better at business

By Steven Flax

HE SELF-MADE ENTREPRENEUR is a staple of contemporary folklore. So is his brainy son—quite likely to ert the family firm in favor of science nedicine. Efraim Arazi, the 43-year-founder of Israel-based Scitex Corp. , shatters those stereotypes: He is a nputer whizkid who also has solid dol-and-cents ability to run a company.

razi began his business career by ling funeral wreaths from a cemetery erusalem. He would take the wreaths t, make bundles of flowers and then them to buy electronics components. y 13 at the time, Efi had already ded on a career in electronics.

oday, Arazi's 11-year-old company is a wunderkind of the Israeli economy. Scitex earned $2.6 million last year on revenues of $23.8 million, and sales have been growing at 70% annually. Its best-selling product, the $800,000 Response 300 system, automates color printing in a revolutionary way and has a huge market potential: In the U.S. alone, labor and materials costs in the graphic arts industry run to over $5 billion annually, and the Response 300 system is the state of the art in cutting those costs. "Arazi, like Edwin Land, is a brilliant innovator who can conceive of wonderful technologies," says Richard Rosenbloom, a professor at Harvard Business School who has followed the company for six years. "But what's really remarkable is that he's a terrific manager."

Even more remarkable is Arazi's background. "We had to study Hebrew grammar and Latin verbs and other things that were not to my taste when I was 13 or 14 years old," says Arazi, who grew up in Jerusalem. For a while his truancy was tolerated. But eventually the principal learned of Arazi's wreath-stealing escapades and expelled him. His mortified father, a prominent engineer, managed to get his wayward, illiterate son into a boarding school for Israeli air force cadets. The curriculum was primarily electronics. Arazi began to study.

After serving in the military, he resolved to go to MIT. With $50 in his pocket Arazi landed at Boston's Logan Airport in 1958. He hadn't bothered to apply for admission. He expected to walk into the dean's office, introduce himself as Mr. Radar of the Israeli air force, and be admitted. Luckily, there was a small quota of admission spots for "freaks," and Arazi was allowed to enroll.

He set new lows of underachievement. In the courses he liked—electronics, computers—he did brilliantly. But in others he was hopeless. "It was very difficult," he says. "I was flunking and finagling and always petitioning to be excused from this course or that. They killed me." It took Arazi seven years to graduate, and he was on probation until the day they handed him his diploma.

But Arazi was up to more important things than going to school. To stay solvent, he soon settled in at Raytheon's Space & Information Systems Division. Arazi did such brilliant work there that he also became involved in a NASA project to develop an orbiting astronomical

satellite at Harvard's observatory.

"My problem was to get pictures from the telescope down to earth using the poor radio channels that existed," says Arazi. "In solving it I discovered my professional vocation, image processing by computers. I was involved with a group that did the first experiments in digital image processing, and nearly everything we do at Scitex emanates from it. Here I am flunking out of MIT and all of a sudden I am a big-shot consultant."

Arazi squeaked out of MIT and worked as a consultant to Itek, where his electro-optical projects soon produced $50 million in revenues. In the process, however, Arazi learned a lesson about management. "Itek tried to use the military aerospace technology for industrial purposes, and they failed every time. The mentality of the industry is for one contractor to protect itself by working with complex and detailed specifications. How many times did I hear, 'The specs were met but the thing didn't fly'? This is expensive and stupid."

"How we build the product is our problem. We tell customers, 'We'll deliver a machine that will automate your processes—or your money back.' "

Today, Scitex does things differently. "We rarely write specifications on our invoice," Arazi explains. "How we build the product inside is our problem. We tell our customers, 'We will deliver a machine that will substantially automate your process. If not, you get your money back.' "

Arazi also felt that the "work culture" around Boston's famed Route 128 hampered innovation. Today, living close to work and keeping travel to a minimum, he can spend most of his time with what he calls "my small team." "Never in my life did I sit in any meeting lasting more than two hours or stay on the phone all day," says Arazi, who lets off steam riding dirt bikes with his children in the Judean desert. "I planned to have a small, dedicated team in Israel, with ten technologies in house rather than a horde of pleading subcontractors."

In 1968 Arazi left for Israel to start his own company. When Itek couldn't convince him to stay, it blessed his venture with $300,000 in seed capital. But Arazi's former employer protected that investment—which today amounts to a less than 1% stake in Scitex—by insisting that he give himself a crash course in basic management. "I had to learn such whimsy things as pro forma balance sheets, cash flows and return on investment. All I knew then was that they were ways of keeping score in business."

Armed with another $300,000 from the Israeli Discount Bank Investment Corp., Arazi landed development projects from Itek and the Israeli Defense Ministry. Then he led an exodus of American-trained Israeli engineers. "They were sitting around Cambridge dreaming of going back to Israel. I decided that this was a natural resource not to be overlooked, and asked them to come with me. Those recruits were the backbone of Scitex."

Two years later, after Arazi and his recruits had completed the development work, neither customer gave Scitex production orders. Confirming Arazi's worst fears, his projects had fallen through the bureaucratic cracks. Meanwhile, Scitex was running out of money. "The company had its back to the wall, facing disaster. So we overcame our shyness," says Arazi, a lean, restless man who is about as shy as Attila the Hun. "We decided to look into marketing."

Scitex notched its first commercial success selling $12 million worth of production equipment for the making of double-knit fabrics. The double-knit industry, however, unraveled almost as fast as it spun into prominence. But by the end of 1973 Scitex was ready for the challenge. Arazi, showing marketing savvy every bit as good as his engineering, enhanced his product's technology to automate textile design and printing.

His Response 200 systems have generated $50 million in revenues to date. More important, through them Scitex developed the proprietary technology that would lead it to a bigger market. "We were automating a printing process in textiles," says Arazi, "and we saw this was a primitive subset of the entire graphic arts industry."

Throughout the graphic arts industry Arazi also saw that highly paid, skilled craftsmen were laboriously cutting, pasting and repositioning bits of film before final printing plates could be made. "We asked ourselves, 'What the hell is going on here?' " he says. "All the printer really wants is his plates. He doesn't want to screw around with color separations. So we decided to do all the image handling by computers."

Scitex' system, the Response 300, automates those tasks for printing everything from magazines and catalogs to advertising, annual reports and packaging. Once artwork is electronically converted into digital code and fed into Scitex' computer, one person can do all the retouching and makeup of text and images on a display screen. This means that printing jobs can be finished in a fraction of the usual time, with big reductions in labor and materials costs.

But for Arazi and Arthur Low, his executive vice president, inventing the Response 300 was easy compared with gearing up to make it. "We had to set up production facilities, inventory parts, train field engineers and salesmen in North America, Europe and Japan. Y don't build a large manufacturing facil overnight," says Arazi, who has be studying strategic planning.

On the assumption that the Respo 300 would wow the printing industry the 1979 Milan trade fair, Arazi and L got Scitex directors to commit the co pany totally to their product. Scitex a arranged for $1.5 million in intermedi financing.

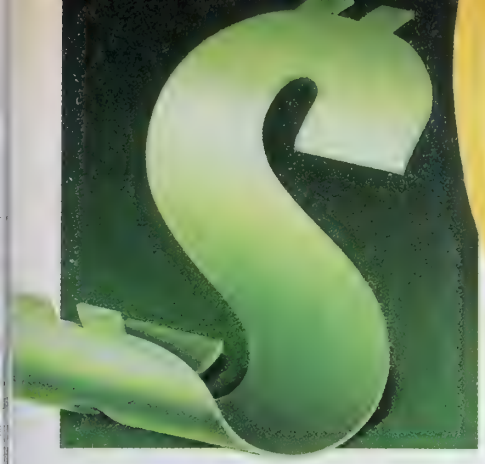
According to plan, orders came po ing in after the trade fair. Large print like R.R. Donnelley in the U.S. a Gutenberghus of Denmark were amo the early customers. "The Response 3 advances an industry that hasn't mo in 50 years," says Ed Lane of N York's Potomac Graphic Industries. ready Scitex' backlog is $13 million, 90% from 1979. More important, s Arazi, is the fact that almost 25% of l year's sales were for add-on or rep orders.

That kind of performance—and A zi's combination of talents—has alre attracted some of New York's sharp venture capital gurus. Fred Adler, on the men who bankrolled Data General a Scitex director. So is investment ba er Thomas Unterberg, whose firm hel Scitex raise $23 million in two U.S. p lic offerings last year. Since then, shares have split once and soared fr the equivalent of 5½ to a recent Scitex, in which Arazi has a 3.5% own ship interest, now has a market valu $80 million and commands a stellar ea ings multiple of 31.

Such success, not surprisingly, is lur competitors. Already, subsidiaries West Germany's Siemens AG and B ain's Delarue Group have introduced m chines similar to Scitex' Response 3 Both are far larger than Arazi's firm, that doesn't faze him. "It's like a bea contest, where one cutie pie can size another cutie pie," he explains. "I look at their work and estimate what can expect as an encore. They think instrument makers, not like systems signers. We are way ahead."

Just in case his rivals start thinking systems designers, Arazi is pushing a en-year plan to do for the entire com nications industry what he did for grap arts. He intends to add a typesetter to Response 300 so that printshops can image and text assembling without leys. If that succeeds, Arazi sees the tential for even faster growth than ever been thought possible.

"The opportunity is there," he c cludes. "Our people are intense, acc plished and focused. And the more att tion we can give to long-range plann the greater will be our chances of prev ing." In his own unique way, of cou Arazi is an expert at that. He's b pursuing plans of his own ever since stole his first cemetery wreath. ■



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Early reports from the taxpayers' spring offensive. IRS has been beaten back at points.

News from the front

Numbers Game

By Richard Greene

Nonconformists

As droves of companies have converted their inventory accounting from FIFO to LIFO in recent years, they've felt the pain of lowered earnings in exchange for lower taxes and improved cash flow.

Now, stubborn holdouts like Masco Corp., 3M and Smith International, which have stayed on FIFO, may be able to make the switch without the pain. Senator Daniel Patrick Moynihan is sponsoring a bill that will allow firms to use FIFO—maximizing income—on their financial reports and LIFO—minimizing taxes—on their tax statements. Up until now companies have had to use the same inventory accounting method on both sets of books.

The bill apparently has a pretty good chance at passing, since the idea of eliminating LIFO-FIFO conformity was proposed by Donald Lubick, undersecretary of the treasury for tax policy, just before he left office a couple of months ago. "For once," says Steve Holub, a partner of Laventhol & Horwath, "the IRS seems to be doing something helpful."

Of course, there will still be obstacles for companies hoping to straddle the LIFO-FIFO fence. The Securities & Exchange Commission will still require that a firm's financial statements properly reflect its business. So companies who have been on LIFO for some years may find it difficult to justify switching back to earnings-maximizing FIFO on their financial statements.

Yankee come home

While investors may soon be able to speed up the depreciation of real estate they purchase in the U.S. from the current 30 years to just 15 to 18 years, foreign real estate will still be depreciated over 30 years. "It really means that foreign real estate will be at a substantial disadvantage to such investments at home," says Albert Ellentuck of Laventhol & Horwath.

Naturally, there are ways for investors to get around that through careful manipulation of foreign tax treaties, but it's still a step in the direction of keeping American dollars in America.

Hidden tax

Contrary to popular belief, corporate taxes are not the most significant taxes paid by most corporations.

Although annual reports only break out the corporate income taxes that companies hand over to Uncle Sam, actually those taxes are in many cases dwarfed by the companies' payroll taxes. In 1980, for example, corporations paid in $161 billion in payroll taxes—sometimes called social insurance taxes—as compared with only $65 billion in corporate income taxes. By 1983 the differential is estimated to be even larger: $240 billion in payroll taxes and $68.5 billion in corporate taxes.

That growth in payroll taxes could be a bigger problem than it appears. Says David Berenson, senior tax partner with Ernst & Whinney, "The more people you employ, the more you're penalized. It's an inflexible tax that really restricts corporate growth, since the more you try to grow the more taxes you pay—whether or not you actually make a profit with those additional workers."

Keeping the silent partners

Everything is more fun if you make Uncle Sam a partner. That's why many people have made vacation homes—including houses, apartments, condominiums, house trailers and even houseboats—into businesses in order to qualify for a number of deductions.

Structured properly, you can deduct things like depreciation, maintenance and even utilities from such residences. But beware! The IRS doesn't really want to go halvesies with you. So, according to Main Hurdman & Cranstoun, the shrewd taxpayer should run through a checklist with his accountant to make sure Uncle Sam is still a silent partner. A few examples:

- The vacation home must be rented for 15 days or more a year.
- It must be used personally for less than 15 days.
- The home must generate a profit in at least two out of five years.
- Finally, watch out when you allow friends or relatives to use it at reduced rates. That can qualify as a personal use and throw your deductions right out the window.

Turning the dinner tables

There are few things more likely to produce ulcers than the news that the IRS has decided to audit your back taxes.

Well, now it's the IRS' turn for ulcers.

There are still drawbacks. You couldn't very well expect the IRS to turn into Mr. Nice Guy overnight. Still, Mead says, "It shows that the IRS has finally recognized that if LIFO is a good idea, it's got to be made available to everyone."

The service could very well find itself saddled soon with a $600 million bill for payroll taxes it has collected in the past on employee meals.

Here's what happened: Most hotels and restaurants allow employees to eat for free. The IRS has always wanted to treat those meals as income and tax the companies. Over the past several years, a few cases came to court on the issue, and until recently the IRS always lost. Still, the taxmen stuck to their guns, took on their "above the law" attitude and continued to tax companies on those meals. There was an effort to get the case tried in the Supreme Court, but the high court refused to hear it.

Ironically, a recent meal tax case that the IRS *won* could prove its undoing. Now there is conflicting law coming from the lower courts, and the Supreme Court has agreed to hear the case. If the ruling falls into line with the majority of opinion from the lower courts—there is little doubt there are going to be some pretty hefty class-action suits to reclaim those back taxes.

Twice as much relief

Just in case it feels like the tax relief promised by the President is all talk and no action, here's a little action: The dividend exemption for a married couple has been upped from $200 to $400 effective for 1981 taxes.

What's more, under the old law, the husband and the wife each had exactly $100 of exemption—if the husband had $200 of dividends in his name, they lost—he could only deduct $100.

Under the new law, the $400 applies to the married couple as an entity—regardless who owns the stock. It hardly makes up for the marriage tax, but every little bit helps.

New LIFO for small business

Chalk one up for small businessmen. For years, heads of middle- and small-size companies have envied their larger brethren for being able to convert easily from FIFO to LIFO and save significant tax dollars. Small businessmen were impeded by regulations that called for all sorts of fancy accounting techniques to index all of their inventories in order to tell what had been sold when—so-called "pooling of inventories." Faced with such complicated requirements, a small car dealer, who might save $5,000 a year by converting to LIFO, would have to spend $10,000 for accounting help to use the technique.

But now, according to Mary Mead, a partner with Seidman & Seidman in Grand Rapids and a nationally respected expert on LIFO, "It looks like the IRS is moving very slowly in the right direction. They've proposed regulations permit taxpayers to use the Bureau Labor Statistics indexes in calculat LIFO, instead of generating their c indexes. That will make it possible many small businesses to take advant of LIFO."

There are still drawbacks, natura You couldn't very well expect the IR turn into Mr. Nice Guy overnight. T IRS proposal requires that the busine use the most detailed of BLS inde which means, for example, that a la grocery electing to use LIFO would h to differentiate in its records betw different kinds of tuna fish or can fruit. Still, Mead says, "It shows that IRS has finally recognized that if LIF a good idea, it's got to be made availa to everyone."

Keep it clean

In order to keep their heads above ter, a number of hospitals are join forces on such activities as laundr food purchasing and lab facilities *(see ry, p. 152)*. It saves money, and lets ho tals divert their cash flow to keep people healthy.

But the IRS sees things another w In a recent ruling, if one hospital sets u laundry facility to be shared with sev other hospitals, charges those hospi for the use of the facility, and make few dollars—the IRS will consider hospital to have turned into a laun mat, and tax it on the profits.

The alternative, of course, is for hospitals to merge outright, so that laundry is owned by all of them. Eit that, or each hospital can run its c laundry as has always been done, just pass the expenses along to the U government through Medicare Medicaid.

Odds are 10-to-1

Let's say a company is doing so thing just a little offbeat in filing taxes. Nothing outrageous, but just sh enough to pick up a few dollars each y of the government's money. Well, i gets nailed by the IRS, it can sim apologize and promise to change its counting methods to follow the strai and narrow path of generally accep accounting principles.

In the past, the IRS would even sh charity to such a reformed culprit giving the company ten years to back any accrued taxes resulting fr the change in accounting systems.

Now, things have changed. If the catches you in some kind of unortho accounting practice, you have to pay all of the back taxes within one y Only if you turn yourself in do you the ten-year grace period. ■

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March 19, 1981

'e're not the only ones who are paranoid: While most Americans think :at the U.S. auto industry has been soundly trounced by Japan, Inc., the ·-no-means-united Japanese themselves fear they may have . . .

A tiger by the tail

By James Cook

HE WEST HAS NEVER BEEN quite able to judge the Japase objectively. At the outbreak World War II, we went from ntempt ("Their airplanes are ıde of bamboo") to terror There's no stopping them") er Pearl Harbor and the sinking the Repulse and the Prince of ıles off Malaya. As the war ɔre on, a more realistic assess-ent developed: The Japanese re a tough and resourceful foe, t by no means invincible.

There's a curious parallel in the to industry today. From con-mpt for their cars ("The things st almost as much as an auto-ɔbile") we have come full circle They make the only decent cars ɔund"), leaving many Ameri-ns persuaded that our own in-stry cannot survive without ar-icial protection.

Now, as then, both extreme as-ssments are wrong.

It was not a race of industrial permen that beat Detroit at its n game, but hardworking, in-ligent business people, exploiting a situation that they emselves had no part in creating. This above all: It was not ɔan, Inc. that triumphed in autoland but chiefly initiative d flexibility.

In Japan, quality is everybody's business. Kikuji Karabashi, a Nissan worker, has won five pins and five prizes for work-improving suggestions.

If Americans are frightened and worried by the industrial uation, so are the Japanese. These are the conclusions that ıerge from weeks of talks with U.S. and Japanese auto ople, here and in Japan.

The Japanese have not forgotten—if we have—that in Janu-y 1979 there were 850,000 unsold Japanese cars piled up on e U.S. docks. And then the Iranian crisis broke, and the ventories vanished. In 24 months small cars went from 44% 55% of the U.S. market. Small-car imports took over more an 26% of the market, and the Japanese supplied over 80% of at. And their market share kept rising. In January 1981, ough Japanese sales dropped over 20%, the overall market opped even further, and Japan's market share continued to ıprove.

But the Japanese success was no triumph for that bogeyman of international trade, Japan, Inc. Japan's powerful Ministry of International Trade & Industry never believed that Japan had a chance in the world auto market, and in the early Sixties tried to jawbone the industry into consolidating into three large companies. But the automobile industry had its own ideas and went its own way, with the result that MITI's leverage with the industry has never been great.

A case can be made that the Japanese auto industry, far from being monolithic, is the only truly entrepreneurial force still operating in the automotive world today, and that this accounts for its stunning success. Everywhere else, in the U.S., in Europe, the industry is in a state of visible decline. Markets are stagnant, plants are closing down and companies have been merging to survive or fighting to stave off bankruptcy. The Japanese, however, have continued to proliferate companies. What was the last major new U.S. entry? Kaiser-Frazer in 1946!

Though Toyota, Nissan and their associated companies (Daihatsu and Hino, Fuji and Nissan Diesel) account for over 60% of the Japanese industry's volume, they have nonetheless steadily lost market share to a series of new and aggressive competitors. Toyo Kogyo took off from machine tools and three-wheel trucks, Honda from motorcycles and small engines, and both broke into the auto market with a series of exciting and technologically innovative cars. Isuzu is coming up fast with the help of its 34% partner, General Motors. So is Mitsubishi, despite a disappointing performance by its American partner, ailing Chrysler Corp.

The industry continues to proliferate. Suzuki pushed beyond motorcycles into minicars only in 1962, pinning down a major portion for itself in a phase of the auto market that could yet be—when and if a third or fourth energy crisis hits—the shape of the future. In the circumstances, it's not hard to see why companies like Honda and Toyo Kogyo are inclined to view any call for voluntary export restraints as a means by which Toyota and Nissan could freeze their position in the market.

True, the Japanese had the right product at the right time: small, fuel-efficient, pollution-free automobiles that promised to help save the U.S. from its energy dependency and pollution problems. But they had such a product because, unlike Detroit, they correctly assessed the realities of their time. When air pollution became an issue in the U.S., in the mid-Seventies the Japanese decided that what was a local problem in the U.S. was a national problem in a small, congested country like Japan. And so, when the U.S. set emission control standards for the industry back in 1975, Japan set about not only to meet them but also to surpass them by a comfortable margin.

The working day begins on the line.

Then, too, because Japan depended almost solely on imported energy, the Japanese took the energy shortage seriously and, when the crisis broke, made a major effort to develop fuel-efficient engines. In this, too, they went all the way. There's a touch of irony in his words when Nissan's Executive Managing Director Teiichi Hara says: "When we found that GM had downsized cars coming on, like the S series and J-cars, many of us felt that that's the way things would go. So we felt we ought to catch up."

Catch up? While Americans were moving in stages toward smaller cars, the Japanese had a three-or-four-year edge over the American producers and they made the most of it. By 1978, they could already meet the 27.5 mpg fuel-efficiency standards U.S. carmakers would be required to meet by 1985 and had set even more stringent targets for themselves. According to EPA tests, eight of the ten most fuel-efficient models EPA tested last year were Japanese. The other two were German.

When the break came—when gasoline passed $1 a gallon—the Japanese were ready. But not because they expected to conquer the world. Simply because the competition stumbled and they didn't.

Yet, like World War II at the high point of Japanese conquests, the battle is not over. In seeking to regain its competitive position, Detroit has chosen a direction the Japanese have not yet really been prepared to take: front-wheel-drive cars whose competitive importance is still not determined.

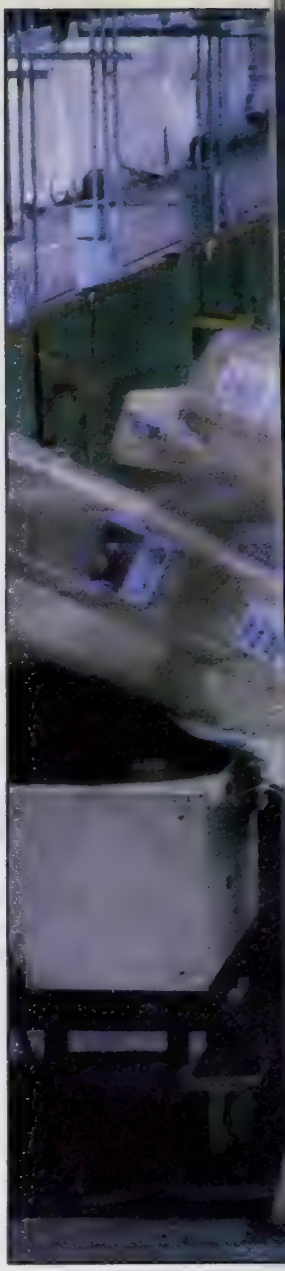
Certainly General Motors' X-cars have done well, Chrysler's Omni and K-cars have not done at all badly, and the Ford Escort looks like a winner. But the onslaught is only beginning. Next month, GM will introduce its long-heralded J-car—a Chevette-size front-wheel-drive car that will compete head-on against the most popular Toyota, Datsun and Volkswagen models, and with its X- and J-car lines, GM has hardly exhausted the alphabet. F-, A-, S- and B-cars are beyond the horizon and coming on fast, and so are other front-wheel-drive models from Ford and Chrysler. So far, the fuel efficiency of most of these "alphabet" cars is a bit behind that of the Japanese, but fuel efficiency is conceivably not everything, and front-wheel drive affords the roominess American buyers have always been accustomed to.

By 1983, the U.S. producers will have more than 6 million units of front-wheel-drive capacity out of a total downsize capacity of 7.8 million, *vs.* 1.78 million last year. By contrast, less than 20% of Japanese production last year—1.4 million units—was in front-wheel drive, and most of that had come from upstarts like Toyo Kogyo (which makes Mazdas) and Honda.

"What the Japanese worry about," says a State Department trade specialist, "is that the U.S. will do essentially what the Japanese did—leapfrog. Take the best of what they're already doing, add some improvements and come up with a product that is a generation ahead."

If the Japanese are nervous, why then are they adding, as a recent Department of Transportation study indicates, 2 million units to their current 11 million-cars-a-year capacity? Answer: It's front-wheel drive that explains much of the increase. "The capacity increase will be considerably less than it seems," says one Japanese industry expert. "Much of the front-wheel-drive expansion will replace old rear-wheel-drive capacity. Of course, if the market is there, the old capacity will be produced for a while."

Toyota executives concede that next year they plan to convert their best-selling U.S. line, the Corolla—perhaps 13% of last year's output—to front-wheel drive. But Toyota is not really sure what the market will want. "An increase in front-wheel drive," says Toyota Motor Sales Chairman Seisi Kato, "would have to be accompanied by an increase in demand. If the demand is there, the focus w shift to that type of vehicle." Nissan is a little more decisi conceding that long before 1985 two-thirds of its capacity w be converted to front-wheel drive.



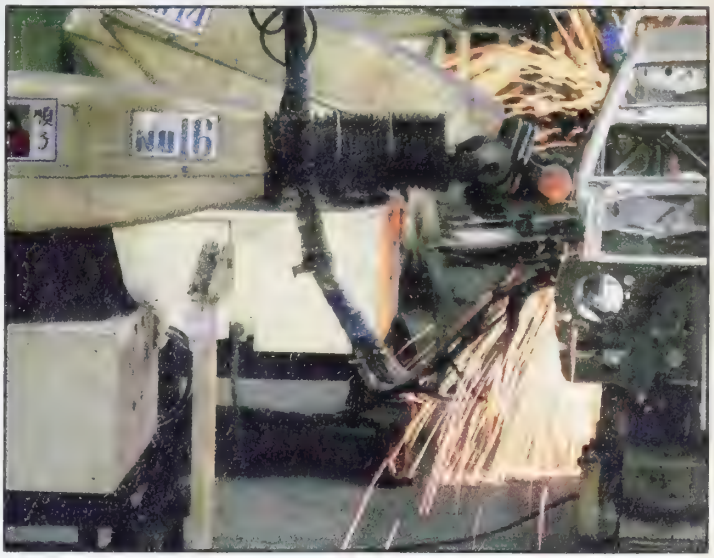
There is significant expansion of basic Japanese capac under way, however, but it is being undertaken, ev according to DOT's estimates, by independents and especia by the Japanese partners of General Motors and Ford—To Kogyo, in which Ford acquired a 25% interest a year or back, and Isuzu, in which GM has had a 34.2% interest nearly a decade. According to DOT, Isuzu will add 260,0 units of capacity by 1983; Toyo Kogyo, 340,000. And that something to think about. Is that Japan, Inc.? Or is it Detr disguised in a kimono? There can be no doubt about it: both Ford and GM, Japanese manufacturing and sourcing pla major role in their comeback plans.

In its own behalf, Toyo Kogyo is presently building a $1 million, 240,000-unit assembly plant on the island of Kyus partly to replace antiquated capacity at its home base Hiroshima—"a kind of scrap and build program" is how To Kogyo's President Yoshiki Yamasaki describes it. But much Toyo Kogyo's efforts these days are made in behalf of Fo

'apan, production-cost advantages come from committed workers and cost-cutting machines. At Nissan's Zama ıt, near Tokyo, 100 robots, costing $50,000 or so apiece, do 97% of the welding.

ɔ Kogyo is already committed to supplying Ford with saxles for the front-wheel-drive Escort and conceivably for ıpcoming standard-size front-wheel drive as well, and there rumors that it will soon be producing 200,000 Mazda ilias every year to be sold as Ford Lasers in Australia and theast Asia or as Cortinas in Europe. "Toyo Kogyo is ng a part in Ford's international marketing strategy," says ınalyst with a Tokyo securities firm, "just as Isuzu is in eral Motors'."

uzu has identified its ambitions with GM's for about a ide now. When a rising deutsche mark priced the German-le Opel Kadett out of the U.S. market, Isuzu began making Japan—for sale under the Buick Opel marque in GM's U.S. kets and under the Gemini label in its Australian and theast Asian markets. For some years now it's been pro-ing 50,000 to 100,000 Luv pickup trucks every year for GM ıe U.S., and it's planning to produce a version of GM's J-car Japan and Southeast Asia. There are rumors that it will luce a 50-mpg diesel engine for the Chevette and for an S-GM expects to begin producing in Spain in the mid-ıties. This summer Isuzu plans to invade the U.S. with a el-powered Gemini under the name of I Mark and eventu-



At Nissan, one robot does the work of 1.8 men.

The final assembly process still depends heavily on hand labor, but the Japanese help assure product quality throu quality control teams, which descend upon each car as it passes, installing electrical equipment, seats, upholste windows and then rigorously inspecting what they have done.

ally plans to manufacture them here. With GM's help, Isuzu has been growing explosively. In 1972, when GM moved in, Isuzu produced 180,000 units, exported 60,000. In 1980, it sold 472,000, exported 271,000.

Mitsubishi, Japan's fourth-largest auto company, has similar international ambitions and sought to realize them a decade ago by selling a 15% interest to Chrysler. These days, it would like to enter the U.S. market on its own. But so far, it remains Chrysler's reluctant partner—perhaps one day something more than that: There has been talk of mergers or joint ventures between the two.

Certainly the world auto industry will never be the same again as a result of the Japanese challenge, but there are increasing signs that the industry is beginning to respond to the challenge in a positive way. Foreign executives the world over are beginning to study Japanese methods, and for the first time in decades, U.S. auto companies are pressuring the UAW not simply for moderation in wage increases but for cutbacks. They are even trying to find ways and means of adapting the Japanese work culture to American conditions. For U.S. auto workers, however, the prospects are not bright. Even a modest 5% annual increase in productivity between now and 1983, according to DOT figures, would cost 200,000 jobs, about as many as would 2.4 million additional imported cars. But those job losses were probably fated in any case. In their previous complacency, the auto companies and the UAW were merely postponing the inevitable.

Paradoxically, the challenge Japan has raised to the world would most likely prove an equally formidable challenge to itself. Most Japanese auto executives seem to have resigned themselves to some form of protectionism, official or unofficial, in Europe and the U.S. Though there's still considerable growth left in Latin America, the Middle East and even Africa, they're only too well aware that if they hope to maintain anything like their present position overseas, they will have begin moving into the major consumer markets not simply exporters but as manufacturers, full-fledged members of consuming economies they serve. They haven't had mu choice about it. Toyota depends on exports for 43% of business, Toyo Kogyo 67%, Nissan 48% and Honda 76 Rather than be shut out, the carmakers will almost certai move overseas.

The pattern is a familiar one in the export trade. Inter tionally minded companies invariably begin reaching for export markets, set up marketing organizations abroad a then, after a period of time, begin to put down manufactur roots—to compete more effectively with local manufacture to save shipping costs, to avoid local tariffs and taxes or demonstrate their economic good citizenship. That's h General Motors went to Europe in the Twenties, how U pharmaceutical and computer companies went abroad in Fifties and how, in time, the Japanese would most likely ha eventually moved into Europe and the U.S.

But the Japanese are uneasy at having to move so quick Having to compete with the likes of General Motors and F on their home ground is a formidable prospect in itself, a beyond that the Japanese have grave doubts about their abil to duplicate their production system anywhere other than Japan. But their unease also seems to spring from some m basic cultural aversion. As Toyota's Seisi Kato once put explaining why outsiders have failed to make inroads in Japanese auto market: "Japan possesses a different cultu customs and, most important, a very different language fr the nations of the West. Unhappily, this may be a barrier itself."

The pressure is all the more acute insofar as General Moto response has been to evolve its concept of the world car— automobile of international design, multinationally sourc

ice a day, morning and afternoon, the workers break for tea.

tting cushioning material.

ie past two decades?

"General Motors is pushing the world-car concept," says issan's Teiichi Hara. "But at Nissan we don't have such a oncept. The Japanese are not so cosmopolitan. We have oved only in limited parts of the world. We are not adept at oing international. Ideally, we would have liked to have a ome base in Japan, and without causing too much trouble or iction we would like to do business in other parts of the orld. We don't really seek to have worldwide status. But we on't have any choice. Otherwise, I think we will find our sales oing down."

The competitive threat is so considerable that Nissan's esident Takashi Ishihara believes it will reshape the auto dustry. "There are only two options," he said a while back. Tieups with General Motors, or joining forces in rivalry with M. I believe it is still possible for existing automakers to operate through multiple linkups." Ishihara is not alone. MC's President Paul Tippett predicts that by the year 2000 ie number of automakers will be reduced from 34 to 12. AMC self has begun the process by seeking survival in partnership ith France's Renault.

Nissan seems to be casting its lot *against* General Motors. It as begun discussions with Volkswagen, which has never iade much of an impact in Asia or Japan. Nissan and VW have xchanged shopping lists, and the negotiations, expected to be ompleted in June, could result in the two firms pooling their and manufactured for maximum economies of scale. Thus, the J-car GM's German subsidiary will introduce this fall may be assembled in Belgium, have an Australian engine and a Japanese transaxle. Ford's European Escort will be built in Great Britain and West Germany with components from 19 countries around the world. It's a logical enough strategy for multinational companies like GM and Ford. But what could be more alien to the intensely centralized production patterns the Japanese have developed over

strengths throughout the world. At the least it's likely that, in exchange for VW's help in markets like Germany or Brazil, Nissan will manufacture 200,000 cars a year—the Dasher perhaps, or the Audi—for sale in Japan and Southeast Asia.

Nissan has already worked out a deal with Alfa Romeo to manufacture cars in Italy to Nissan design, though not with Nissan management control and perhaps not under the Nissan label. In Britain, where Nissan is the leading Japanese import, it is studying the feasibility of building a $500 million automobile plant in Wales. To be in operation by 1986, the plant would produce 200,000 front-wheel-drive cars a year and serve both Britain and the Common Market.

The British plant is still speculative. But Nissan is already building a $300 million plant near Nashville, Tenn. to serve the big southeastern U.S. truck market. The new plant will have an initial output of 120,000 light pickup trucks a year, just about what Nissan now exports to the U.S., and there are rumors that the resulting excess truck capacity in Japan will be committed to producing cars for VW. VW in turn will begin producing Datsuns for the U.S. market at its new $300 million plant at Sterling Heights, Mich. "We have no intention of building passenger cars in the U.S. at all, ever," says one Nissan official. Nissan, he explains, doesn't have enough U.S. sales volume in any model to justify the investment.

"Our actions have been passive rather than active," Nissan's Teiichi Hara emphasizes. "In each instance, the initiative came from outside—from VW, Alfa Romeo, the British government. Historically, the Japanese auto manufacturers, including Nissan, did not have friendly associations with other car manufacturers and parts manufacturers. They were isolated. We wanted to have such associations, but we waited for others to make the initial move."

Toyota has seemed even more reluctant to branch out, perhaps because its production system is more dependent upon Japanese conditions. Virtually all its production comes from ten manufacturing plants clustered around Toyota City. But it's almost certain that in time it, too, will venture into the overseas market. For a year now Ford has been trying to work out a deal to fill the gaps in its own line by producing Toyotas at some of its excess U.S. capacity. But so far Ford and Toyota reportedly haven't been able to agree on how much or what to produce—500,000 units a year or half that, a lightweight leisure vehicle or a small car on the Honda Civic scale.

If Toyota should go to the U.S., however, it would be with a complete operation, not just one to assemble," says Toyota's Seisi Kato. "You have different labor-management relationships in the U.S. Whether the American worker will evolve in the direction of becoming more loyal to the company he works for, whether the Japanese methodology in that area could be transferred to the U.S.—this could have a large bearing on what might develop in the future in the U.S. We wouldn't go to the U.S. unless we were sure we would see some profit—though not necessarily the same profit as in Japan."

Only Honda seems to be venturing into the world market with any entrepreneurial enthusiasm. "It's our business to sell cars, as many as possible," says Hideo Sugiura, a Honda executive vice president. "But if our efforts to do so should damage the economies of the importing countries, it's not to their benefit or ours or anybody's. So the Japanese will have to find ways to make their cars domestic one way or another. In Europe, the total capacity of the automakers is already greater

than the demand in that market, so for us to go there and build our own factory only adds to the problem. Instead, we decided to provide technical and financial assistance rather than add to their already overflowing capacity."

The first step is an agreement to license BL to produce Honda's Ballade under the name Acclaim beginning this summer—8,000 units a month initially with production rising eventually to 10,000 a month. "I personally hope this will mark the beginning of a wider partnership," Sugiura says, and so apparently does BL, which is now dickering for a license to produce another Honda model.

In the U.S., too, Honda is acting far more boldly than its Japanese competitors. It is building a $200 million auto plant adjacent to its new motorcycle plant in Marysville, Ohio. The plant is small by industry standards—120,000 cars a year—but Sugiura insists it will make money. "An investment of this sort is necessary," Sugiura says, "if Honda wishes to build long-lasting business relationships in the U.S. We have the same idea for other markets—for Pakistan, Thailand, Indonesia and other less-developed countries."

At shift's end, the workers work out at the company gym, fence, play volleyball

But even Honda is uneasy. Setting up a successful dealer organization is one thing. There the Japanese were concerned with doing what the Americans were doing and doing it in the American style, only better. But no Japanese automaker knows just how far it can go in duplicating its work system in the U.S., and the portents are perplexing: The United Auto Workers union is currently suing Honda for forbidding its Marysville motorcycle workers to wear union buttons or patches, even though the union doesn't happen to represent the Honda workers. And certainly no Japanese automaker has any illusions that it may not one day have to cope with the UAW if that's what its employees want. But they go on hoping. What worries them most of all: Japan's auto industry is alarmingly short of people with the skills necessary for managing manufacturing operations in the U.S. or elsewhere, especially plant foremen. And they're essential because, if Japan does attempt to transplant its work culture, its new workers will have to be taught.

So far, at least, Japanese companies like Sony seem to have had considerable success in building a U.S. manufacturing base. But the auto industry is not the electronics industry. So very much more is at risk. Automaking, after all, is an industry with long-established patterns of operation and supply, and the capital requirements are huge—$300 million for a single minimally scaled plant, as against the $125 million that Sony, for instance, has invested in two plants in the U.S. over the past nine years. And the risks are proportionately huge.

Like us, the Japanese are worried and nervous. If their devotion to their own culture often borders on the arrogant, it does not preclude soul-searching and sensitivity. That they have forced Americans into similar worry and soul-searching may well be a healthy, creative thing.

For there's no question we can learn things from the Japanese. It's a common place that Japan is the only non-Western culture to fully industrialize, but what is not quite so commonplace is that, in doing so, Japan managed to absorb Western methods and technology without sacrificing its own cultural values. *Wakon yosai*, as the industrializing slogan had it nearly a century ago: "Japanese spirit, Western skills."

In the U.S., labor-management relations are a matter of confrontation. In Japan, they're a pursuit of consensus. Far from each trying to win something at the other's expense, Japanese management and labor try to resolve their divergent interests in the best interests of the company. "Sweetheart talk" is how one economist describes collective bargaining in Japan, and it's fairly exact. Japanese workers identify themselves with the company they work for, their prestige derives from the success of the company they work for, and the success of that company results from the cooperative efforts of all who work there.

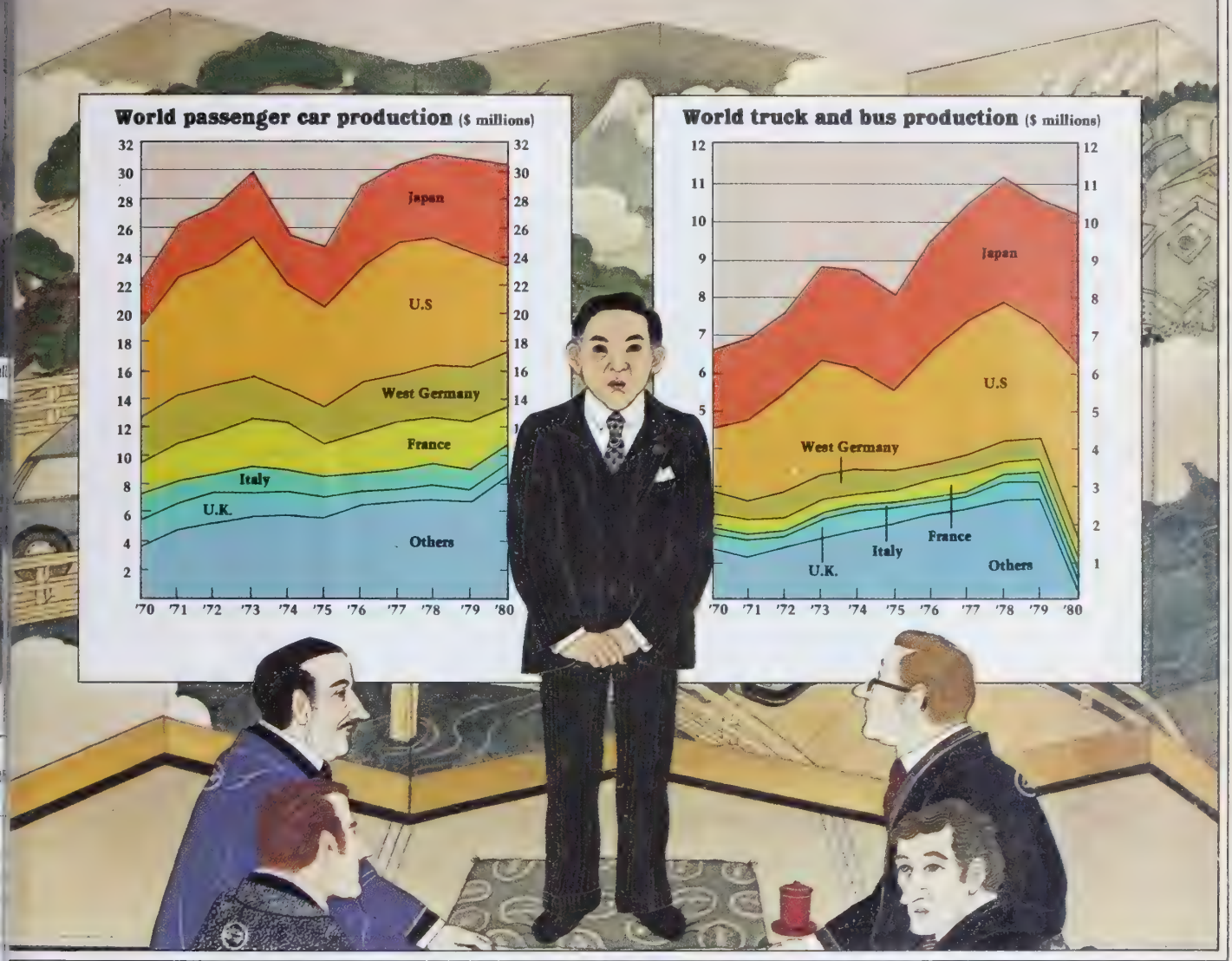
At Nissan, when things wrong, any worker can hit t button to stop the line.

In such circumstances, the financial success of the compa becomes the paramount concern of both management a labor. One result is that wages in the Japanese auto indust though higher than they are in either France or Britain, only two-thirds as high as they are in the U.S. or Germa Another is that when the auto industry's opportunities beg to expand enormously in the Sixties, Japanese labor did insist on expanding employment in line with the increase business. Labor was short, nobody was going to lose his job, the unions enthusiastically supported the automation of p duction. Beginning in the early Seventies, the Japanese ind try began to automate on a scale unmatched anywhere else the world. While the rest of the world was sleeping, Japanese were being, well, Japanese.

The results were spectacular. Between 1975 and 19 Japanese auto production rose more than 60%—to 11 milli vehicles—but employment rose a mere 9%, to 650,000. estimated 1,200 computer-controlled robots went to work the assembly line, taking over 70% and more of the sp welding involved in body assembly, virtually all the work the paint shop, and bits and pieces of other processes forging for example. And this is just the beginning. The tri isn't simply to automate the process, but to design the itself for maximum automatic production. The impact productivity was startling. In 1970 Japanese workers turn out only 15 vehicles per worker per year. By 1980 they w

The biggest automaker in the world

In 1980 the Japanese finally took first place in the international auto industry, ousting the U.S. from the front-rank position it had held for over 70 years. It was an off year, and that may be some consolation. But all told, Japan turned out over 11 million vehicles—7 million passenger cars, 4 million buses and trucks. The U.S. was still first in buses and trucks, but the margin was narrow, and the U.S. truck manufacturers were heavily dependent on captive Japanese imports to serve their markets. The year 1981 shapes up as another disappointing one, but it's likely to be more disappointing for the industry at large. Japanese import sales may be off, but industry sales are off even more.



rces: Japan Automobile Manufacturers Association; Motor Vehicle Manufacturers Association; Paine Webber/Mitchell Hutchins.

ɔducing 28. During the same period annual U.S. productiv- rose from 9 to only 12 vehicles per worker. In its essence, was a strategy that had given the U.S. auto industry its mpetitive edge for generations—the progressive substitu- ɪns of machines for labor.

roperly done, automation in itself goes a long way toward improving quality by reducing manufacturing error to a ɪnimum. But much of auto production—at least in the final ɜembly process—still depends heavily on hand labor, and the ɔanese have managed to develop the same control of quality the final hand-assembly process as they have elsewhere on e line. Borrowing ideas from the U.S. academics as they'd rrowed robotics from the U.S.' Unimation, the Japanese ganized the line workers into quality control work teams. ɪality becomes the ultimate responsibility of the men on the ɪe, not the men in the office. Quality, in fact, becomes a sponsibility of everyone in the company, a sort of communi- effort, with the result that Toyota, for instance, generates er 575,000 suggestions every year—17 per employee—and opts 90% of them. General Motors, by contrast, last year generated less than 1 per employee and adopted only 30%.

In the U.S. and most of Europe, the uninterrupted operation of the assembly line is the controlling impulse of production economics. If something goes wrong, the line moves inexorably forward anyway, and any mistakes are patched up later. At Toyota a red cord runs along the line, and if something goes wrong, a worker has only to reach up to stop the line. The Stopping Line System, it's called. At Nissan, there's a button. The whole line comes to a halt and everyone pitches in to fix whatever has gone wrong. Stop the line to correct a defect, and you get a dividend in quality. Keep it moving, and the defect gets covered over and becomes difficult if not impossible to correct. Toyota's Chairman Seisi Kato remembers being astonished one time by the speed of a GM assembly line. He discovered the line had been speeded up, with labor's consent, to offset a wage increase. "When the line is moving that fast," Kato says, "you don't have time to look closely at quality."

According to that recent Department of Transportation study, the Japanese producers have won a cost advantage over the U.S. producers of $1,000 to $1,500 per unit. That means, of

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course, that in pricing their cars the Japanese inevitably also set their competitors' profit levels, and these days they're far too low. As Harvard Business School Professor William Abernathy concedes, "The competitive impact of both a quality and a cost advantage have proven nearly unbeatable." Significantly, when truck tariffs were raised last summer from 2.9% to 25%, the U.S. producers didn't try to increase their market share on the price advantage, they jacked up their prices correspondingly to improve their margins.

In forging its competitive advantage, the Japanese auto industry may not have had any direct government assistance, but government and business in Japan are not adversaries as they all too often are in the U.S., and the auto industry benefited greatly from liberal Japanese tax and depreciation policies that enable industry to recover its capital costs very quickly. First-year depreciation runs to 25% and under certain circumstances—the acquisition of robots, for example—companies can recover as much as 50% of their capital outlays in the first year, a matter of consequence even in an economy where inflation's been more or less under control.

Compounding the advantage, the unique financing pattern of Japanese business enabled the auto companies to take a much longer view than is normally possible in either the U.S. or Western Europe. Industrial capital in Japan normally comes from the banks rather than external capital markets, and banks not only lend money, they normally also take large eq interests in their creditor companies, less as a token of ow ship than as an indication of the mutual support corporat extend to each other in Japan. Financial institutions, for stance, hold 61% of Nissan's equity, corporations another 3(

With such institutional capital at its disposal, the Japar auto industry was able to channel its cash flow into auto tion and modernization rather than dividends. During Seventies, when the Japanese automakers were paying only 20% of their earnings in dividends, the U.S. automak by contrast, paid over 50% and committed their remair funds to marketing rather than modernization.

In so doing, they weren't really doing their stockholders favor. For all the generosity of its payout, General Mo stock is far lower than it was a decade ago; the less said ab Ford and Chrysler in this respect the better.

But now the question is: How well has Detroit, and Am can industry in general, learned its lessons? It was Gen Douglas MacArthur and his fellow reformers who taught Japanese the advantages of Western initiative and individu ism. Why shouldn't the Japanese now return the complime Maybe teach us something about risk-taking and the entrep neurial spirit that we sometimes seem to have forgotten. ■

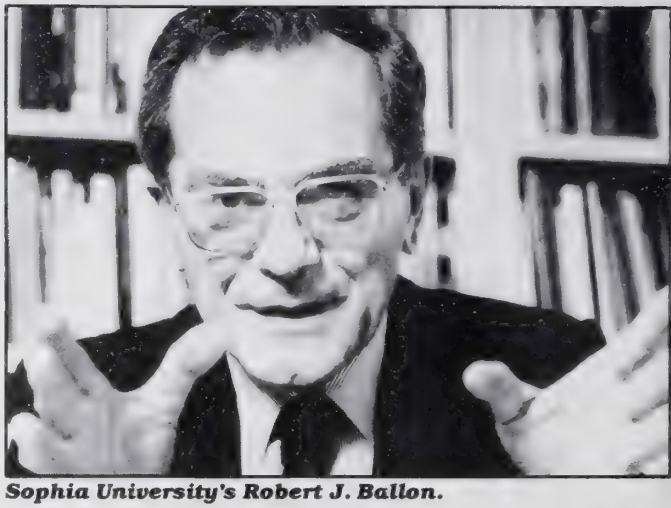
The Japanese system: management & MacArthur

"A more modern form of labor organization than anything we have in the West" is how Robert J. Ballon describes the Japanese system of labor-management relations. Ballon is a professor of economics at Tokyo's Sophia University and one of the foremost experts on Japanese labor practices. It's a common myth, he says, that the system grew out of the traditional patterns of Japanese culture. Not at all. It's a postwar innovation, owing much to General Douglas MacArthur—a system developed on patterns borrowed mainly from U.S. corporations and academics and pragmatically melded with the traditional Japanese social structure.

This melding creates verbal confusion. Most of the English words people apply to Japanese business conditions don't really mean what they suggest, Ballon says. There are shareholders in most Japanese companies, but the companies don't feel accountable to stockholders; the business really belongs to the people who work there, which is partly why Japan has no takeover movement. And the object of the business isn't usually, or primarily, to make money for the owners but to provide jobs for the workers. There are labor unions. Except for the seamen's union, however, they are not craft or industrial unions, but enterprise unions, organizations encompassing all the permanent workers of a single company. In Japan, a company consists of labor and management combined, and until MacArthur told them it wasn't proper, management personnel belonged to the unions along with the workers. And why not? The success of the company is the common interest of everybody who works for it. "If the company goes bankrupt," Ballon explains, "that's the end of the union."

"In the West," says Ballon, a Belgian-born Jesuit priest who spent the last 30 years in Japan, "we take some individuals and add them up and somewhere a group comes out." In Japan, it's the work group that gives a man his significance, his identity. It's an identity he proclaims by the company pin he wears in his lapel. A Japanese uses the same word to refer to his home and his company and that's fitting, Ballon says, because a Japanese doesn't work for a living, he considers work a way of life.

Given the high degree of security Japan's lifetime employment system provides, how come the Japanese are so



Sophia University's Robert J. Ballon.

thrifty? The whole system is geared to encourage thrift and thus provide low-cost capital for industry. For example, in addition to the usual monthly wage payment, there are two semiannual deferred payments, inaccurately called bonuses. They are paid in June and December and, combined, often equal more than six additional monthly payments. For the companies, the plan is a way of encouraging thrift and financing working capital needs without pain. For the employees, it means they tend to live below their means, and that is in part why the Japanese 20% annual savings rate is among the highest in the world.

"When you talk about wage," Ballon says, "in Japan you also talk about age." Most people go to work for a company when they get out of high school or college, move up, more or less in lockstep, with other people hired at the same time, and stay there until they retire at 55. They don't have much choice but to stay because if you go anywhere else you are back to zero in the seniority system.

"I say to the Japanese," Ballon comments, "I can guarantee you one thing: No Westerner is ever going to *imitate* you. And I also say, you better watch out if some Westerner begins to *learn* something from you."—J.C.

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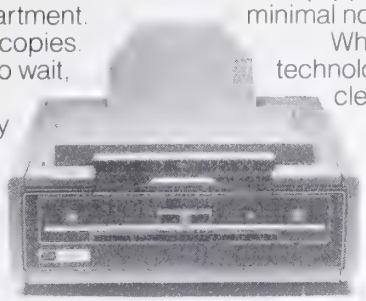

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Can H&R Block do for legal services what it did for income tax preparation? That may be its best hope for finding . . .

Life after April 15

At the country's biggest tax service, a storefront legal clinic
One-stop shopping for wills, divorces and taxes.

By Carol E. Curtis

HENRY BLOCH has a problem. H&R Block, his 26-year-old firm,* has offices in every U.S. city with a population of over 5,000, and the company prepares 1 out of every 10 federal returns. But with that big a base, new business hardly comes easy. Already, annual growth is down to 11%—less than half what it was a decade ago. What's more, there is a troubling trend: Many taxpayers are shifting to the Internal Revenue Service's short form that can be done at home.

For the present, of course, H&R Block's performance seems beyond reproach. The company has liquid assets of over $150 million—more than those of some firms 10 times its size. Its asset-to-debt ratio is more than 2-to-1, and net earnings last year were $32 million on revenues of $230 million. "Analysts say we have one of the best balance sheets on the New York Stock Exchange," boasts Bloch, the firm's president, who has become rich from the storefront tax business. He, his brother Richard and the Bloch family hold 27% of the stock, a stake worth $90 million. That makes Bloch one of the wealthier residents of the posh Kansas City suburb where he has lived almost 30 years.

Still, for Block to return to its early high growth rate, diversification is essential—and the tax service has met with persistent problems in moving beyond its basic business. Block is now phasing out its 11-year-old insurance venture, after losing close to $1 million. The company also sold off another acquisition, Consumer Communications Services, after projected growth failed to materialize. The jury is still out on two other operations: Personnel Pool of America, a company that provides temporary nursing help, and CompuServe, which makes software for home computers.

Now, however, Henry Bloch thinks he's found the perfect fit. He plans to offer low-cost legal services along with tax advice—in effect, one-stop shopping for divorces, wills, bankruptcy petitions, adoption and real estate, along with tax preparation. "We aim," says Bloch, "to do for legal services what H&R Block did for taxes."

There is no question that no one has developed the tax business as steadily, or as effectively, as H&R Block. The company's shrewd advertising and repeat business have beaten off challenges from big finance companies and department stores, until it now enjoys a market share of 10%. Over the years, Block has bought up several of the company's franc operations, until about half of its 9, offices are now company owned. It longer sells franchises.

To get into the legal business, Bl last June spent $2 million to acquire tangible assets of Hyatt Legal Servi an Ohio-based chain that offers rout legal aid at fixed fees and relies hea on television advertising. Joel Hyatt, 30-year-old attorney who runs the c ics, thought his customers would mostly working class—people w watch television a lot.

He was right: Though their incor range as high as $75,000, the family come median is not far from the $20, level that provides most of Block's business.

Since both operations are going a the same customer, the advantages offering them together are obvious. T will share the same space in compa leased Block offices, winning new le business from old tax clients. There is advantage for the tax people, as w Since the legal clinics will operate ye round, H&R Block will be able to obt better-quality space than it now has w its short-term leases that typically exp Apr. 30. "It is a real economy of scal says Hyatt, a graduate of Yale Univers Law School who once worked at New York law firm of Paul, Weiss, kind, Wharton & Garrison and is n running the clinics.

There is a law that prevents Bl from rendering legal services or ownin law firm, so H&R Block formed a subs iary, Block Management Co., that gi the clinics marketing and administrat help for a set management fee. Lawy get $25,000 a year, and fees begin at $ for initial consultation. Block Mana ment now runs 22 clinics in Ohio Pennsylvania in space often occupied the tax service. Within five years, Bl Management plans to have the legal c ics operating in 300 company-leased fices. "Block Management Compa could be bigger than the tax busines says Bloch.

There are still questions—and grow competition. The biggest consumer le firm, Jacoby & Meyers, already has offices in California and 23 in New Yo and a growing number of other le firms are pitching low-cost legal There is also the shadow of Block's successful diversifications to overcom

What if the new sideline fails? T the pressure to empty Block's cash ho will become greater than ever. The co pany has been increasing its payout tio—to 62% at the moment—but fast enough to suit some shareholders. lure as a takeover target will almost su ly grow, despite the family's hefty ov ership position. If the legal clinics do catch on, Henry Bloch may some need all the lawyers he can muster. ■

To avoid customer confusion, the compa is spelled phonetically.

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e banks are headed this year for loan losses in amounts that haven't en seen since 1975-76. Why, then, are bank stocks doing so well?

Risk-free banking? There's no such thing

By Ben Weberman

O JUDGE BY THEIR popularity on Wall Street lately, you'd think the banks didn't have a worry in the rld. Big and small, money center and ional, bank stocks have been showing ngth not seen in years: both Citicorp l Continental Illinois stocks have inased by almost 20% since Nov. 16, 0; regionals like North Carolina Nanal Bank have jumped more than 23% l Valley National Bank is up 16% in same period. S&P's average of bank cks is up 17% since November, *vs.* a % loss for the S&P's 500.

t's a measure of how deep investors' trust of bank stocks had been since banks' heavy writeoffs on real estate ns in 1975 and 1976 that, even now, S&P's bank stocks are selling at little re than 5 times their estimated 1981 earnings, *vs.* more than 8 times for the S&P's 500 stocks. So, despite their recent strength, bank stocks continue to look good to a number of influential analysts. Says Charles H. Lott, president and director of research of Keefe, Bruyette & Woods, the bank stock dealers: "Bank stocks are still dirt cheap."

So they may be if—and it's a very big if—1981 earnings meet present expectations. There is good reason to doubt that they will. Last month A.W. Clausen, president and chief executive officer of BankAmerica Corp. (soon to depart for the top post at the World Bank), ticked off four factors that would prevent BofA's earnings in the first quarter of 1981 from matching, never mind beating, profits in the first quarter of 1980: 1) higher operating expenses, caused by inflation, 2) "less than normal" growth in loan demand and net interest revenues, 3) "extraordinarily high" short-term interest rates, squeezing the spread between interest rates on BofA's deposits and the money it borrows and lends, and 4) growing competition from nonbanks.

Whether the first-quarter pattern will prevail all year is anybody's guess.

Undiscussed by Clausen but very much on the minds of bankers right now is yet another worry—the prospect of losses on loans to strapped corporate borrowers. "Many companies are running out of cash and are in industries where they can't pass along high interest rates to their customers," says John F. McGillicuddy, chairman of Manufacturers Hanover Trust Co. "Our losses on loans to corporations will eat into domestic operating profits this year."

U.S. banks will likely suffer heavier loan losses in 1981 than in any year since 1975-76, when failing real estate invest-

A few superlatives

Performance highlights, drawn from the tables on the following pages.

Biggest—fastest			Smallest—slowest	
Citicorp (NY)	$114,920	**Total bank assets[1]—1980**	First National Bancorp (Colo)	$2,499
Mercantile Texas (Tex)	36.3%	**Growth of assets[2]** Industry median: 12.3%	Fidelcor (Pa)	–1.5%
BanCal Tri-State (Cal)	61.1%	**Growth of earnings per share[2]** Industry median: 15.2%	First Pennsylvania (Pa)	P-D
Allied Bancshares (Tex)	23.6%	**Four-year return on equity** Industry median: 13.8%	First Pennsylvania (Pa)	–6.2%
Trust Co of Georgia (Ga)	7.07%	**Net interest margin—1980** Industry median: 4.49%	First Chicago (Ill)	1.77%
JP Morgan (NY)	$36,119	**Value of managed trust assets[1]**	Hartford National (Conn)	$2,822
Home Federal S&L (Cal) Twin City Federal S&L (Minn)	1.37% 1.37%	**S&Ls' spread between earnings assets and cost of funds**	Talman Home Federal S&L (Ill)	–1.17%

[1]Dollar value in millions. [2]Compounded annual rate 1976/1980. P-D profit to deficit.

1981 Annual Banking Survey

100 largest bank holding companies: a statistical profile

	1980 size measures ($millions)											
Rank	Total assets	Total deposits	% domestic demand deposits	Total loans	Loan loss res as % of loans	Total invest-ments	Standby letters of credit	Total capital	Long-term debt % capital	Total operating income	Net income[2]	Company and headqua
1	$114,920	$71,771	14.0%	$70,421	0.8%	$6,695	$10,084	$9,853	60.1%	$14,211	$507.0	Citicorp (NY)
2	111,617	88,426	14.7	63,022	0.9	7,431	2,824	5,177	24.5	12,075	645.0	BankAmerica (Cal)
3	76,190	56,846	25.8	46,974	1.1	4,738	3,500	4,239	36.6	8,003	364.7	Chase Manhattan (NY
4	55,522	41,745	32.1	30,621	1.0[5]	2,693	2,030	2,640	34.8	5,189	230.2	Mfrs Hanover (NY)
5	51,991	35,594	30.0	26,209	1.0[5]	4,584	2,753[6]	2,758	20.9	5,173	367.7	J P Morgan (NY)
6	42,089	27,314	19.2	26,784	1.0[5]	2,506	2,610	2,201	30.7	4,716	224.1	Continental Illinois (I
7	41,342	30,067	31.9	22,362	1.0	3,264	3,019	1,953	30.5	4,300	175.2	Chemical New York (I
8	34,202	23,816	30.7	17,195	1.2	2,315	2,623	1,457	20.6	3,639	180.9	Bankers Trust NY (NY
9	32,110	24,864	34.9	17,937	1.3	4,809	721	2,087	32.9	3,296	233.4	Western Bancorp (Cal)
10	28,699	21,361	15.3	16,939	0.9	1,621	1,419	1,533	21.4	3,415	66.5	First Chicago (Ill)
11	27,794	21,169	28.6	18,333	1.0[5]	2,314	1,067	1,818	35.6	3,117	181.9	Security Pacific (Cal)
12	23,638	16,207	26.3	16,105	0.9	1,672	398	1,718	46.8	2,545	121.7	Wells Fargo (Cal)
13	19,063	14,909	27.6	12,402	1.1	1,181	504	999	26.1	2,006	95.1	Crocker National (Cal)
14	18,090	14,163	41.2	8,576[5]	1.5[5]	1,454	546	840	30.6	1,740	85.8	Irving Bank (NY)
15	17,480	14,163	25.4	9,697	1.2	1,268	514	1,114	31.6	1,859	58.4	Marine Midland Banks
16	16,156	10,890	25.0	7,982	1.6	1,121	214	1,306	31.0	1,595	114.2	Mellon National (Pa)
17	15,948	10,815	20.1	8,563	1.3	1,875	360	1,192	38.7	2,333	103.1	First Natl Boston (Mas
18	14,395	11,044	28.4	7,693	1.0	2,448	156	1,178	31.0	1,478	116.7	Northwest Bancorp (M
19	13,781	10,076	31.0	7,068	1.1	2,229	486	1,080	36.3	1,383	122.0	First Intl Bancshs (Tex
20	13,475	9,768	29.7	7,233	1.0	2,509	371	1,134	30.3	1,336	111.6	First Bank System (Mi
21	11,867	8,473	30.4	6,109	1.2	1,709	309	792	26.3	1,246	88.1	Republic of Texas (Tex
22	11,287	8,631	39.5	5,730	1.2	1,576	287	633	8.9	1,029	103.0	Texas Comm Bancshs
23	11,275	8,722	35.4	5,444	1.4	2,002	285	647	11.1	1,061	90.4	First City Bancorp (Te
24	10,869	7,804	30.4	5,285	1.3	1,837	47	773	14.4	1,023	80.0	National Detroit (Mich
25	10,423	8,319	27.9	5,711	0.8	1,065	156	433	8.9	1,102	50.5	Bank of New York (NY
26	9,588	7,239	29.8	6,200	1.1	512	168	609	20.3	1,037	69.8	Seafirst (Wash)
27	7,771	5,981	38.4	4,532	1.2	639	212	436	28.2	823	30.1	European American[7] (N
28	7,176	5,060	32.2	3,190	1.2	776	82	529	33.8	742	47.7	NCNB (NC)
29	7,004	4,999	45.6	3,829	1.1	1,177	139	367	15.0	681	32.5	Union Bank[7,8] (Cal)
30	6,905	4,759	32.0	3,504	0.9	721	266	353	0.6	726	33.0	Harris Bankcorp (Ill)
31	6,447	4,394	9.3	2,590	2.1	1,026	76	487	36.4	771	74.0	Republic New York (N
32	6,225	4,176	28.3	3,130	1.1	827	170	410	14.2	632	55.6	Pittsburgh Natl (Pa)
33	6,210	4,172	42.3	3,223	1.2	721	92	449	25.9	659	40.8	Philadelphia Natl (Pa)
34	5,854	4,397	38.6	2,548	1.4	1,088	45	485	34.8	603	47.9	Southeast Banking (Fla
35	5,849	4,163	30.6	2,865	1.1	571	172	324	9.3	616	33.1	Northern Trust (Ill)
36	5,757	4,710	24.3	3,692	0.6	899	19	456	27.5	605	40.7	Michigan National (Mi
37	5,733	4,785	32.7	3,626	1.3[5]	806	58	306	0.2	604	53.2	Valley National Bank[8]
38	5,728	1,969	40.0	4,087	2.1	401	98[9]	1,352	73.1	772	43.0	Walter E Heller Intl[10] (
39	5,693	4,455	27.1	3,386	1.0[5]	626	68	311	6.2	575	15.4	Natl Bank of N Amer[7]
40	5,668	3,977	22.9	2,649	1.1	1,336	54	352	9.2	528	39.1	DETROITBANK (Mich
41	5,654	4,030	36.4	2,937	1.2	682	54	371	4.4	552	54.3	Wachovia (NC)
42	5,602	3,936	27.1	3,148	1.1	1,182	64	534	0.0	566	58.4	AmeriTrust (Ohio)
43	5,497	3,619	27.5	3,420	1.4	967	89	873	75.3	756	—73.6	First Pennsylvania (Pa)
44	5,490	3,425	29.7	2,212	1.4	1,266	41	432	16.5	523	52.0	National City (Ohio)
45	5,460	3,907	41.2	3,228	1.3	917	183	396	29.5	554	49.7	Mercantile Texas (Tex)
46	5,222	3,833	27.3	3,327	1.0	472	35	362	17.3	569	39.4	Rainier Bancorp (Wash)
47	5,002	3,917	29.5	2,702	0.9	1,166	84	306	4.5	512	18.7	BancOhio (Ohio)
48	4,879	3,681	30.2	3,320	0.9	634	37	588	38.0	527	58.2	U S Bancorp (Ore)
49	4,769	3,724	26.9	2,879	0.9	844	69	310	16.7	481	27.1	Manufacturers Natl (M
50	4,646	3,071	36.7	2,144	1.2	746	60	343	27.6	467	37.8	Mercantile Bancorp (M

[1]Four-year average is a compounded annual rate: 1976/80. [2]From continuing operations after security gains or losses excluding gain on sale of operations and extraordin sale of operations and extraordinary items. [5]Includes leases. [6]Includes guarantees. [7]Company not publicly traded; stock data not available. [8]Bank only; not organized def deficit NA Not available

	Growth measures[1]						Profitability & cost measures			Stock data			
	erage assets		Equity per share		Earnings per share[2]		Dividend	Return	Net interest	Overhead				
	:ar	1980 vs	4-year	1980 vs	4-year	1980 vs	4-year	on equity	margin[3]	times NI	Recent	1980	P/E	Current
	age	1979	average	1979	average	1979	average	4-yr avg	1980	1980	price	EPS[2]	ratio	yield
	%	13.6%	10.5%	9.3%	5.8%	–7.4%	10.3%	15.2%	2.86%	5.2	22¾	$ 4.02	5.7	6.2%
		10.4	12.4	12.6	16.1	6.8	15.6	18.3	3.45	3.6	27⅛	4.38	6.2	5.3
		14.3	7.8	11.1	29.3	15.2	6.2	12.3	3.17	4.0	46⅝	10.15	4.6	6.6
		15.7	8.6	8.8	9.3	7.0	8.8	14.5	3.25	3.8	32¾	6.87	4.8	8.3
		18.9	10.7	11.8	13.4	17.8	11.7	15.4	2.67	1.7	51¼	8.33	6.2	6.0
		19.0	10.8	11.6	12.2	15.2	9.0	16.0	2.55	2.5	34⅝	5.75	6.0	5.2
		12.2	6.3	9.3	14.6	29.5	4.2	12.7	3.32	4.5	51½	11.05	4.7	7.5
		14.3	7.4	14.0	33.2	55.1	2.4	13.1	3.07	3.2	31	7.21	4.3	6.0
		9.9	11.6	12.4	23.8	5.9	17.7	16.5	4.86	4.2	37⅛	5.70	6.5	5.0
		12.4	5.8	1.1	–12.2	–43.8	5.7	10.0	1.77	7.1	15½	1.59	9.7	7.7
		12.2	11.1	12.2	21.8	10.3	13.7	16.6	3.93	4.3	36	6.55	5.5	5.6
		14.5	10.5	9.2	14.5	–2.2	17.5	15.6	3.89	4.9	27	5.33	5.1	7.1
		15.6	9.3	7.6	16.2	1.2	6.7	15.2	4.98	5.9	39¼	6.76	5.8	6.1
		11.0	9.4	12.1	18.8	24.8	8.0	14.0	3.83	4.1	47⅝	9.70	4.9	6.4
		11.7	4.2	3.6	38.6	9.1	1.5	7.1	3.38	6.4	17¾	3.47	5.1	5.9
		17.9	7.7	9.1	15.0	16.5	9.8	12.1	3.28	2.3	31¾	5.73	5.5	6.4
		20.1	7.6	10.0	23.0	20.2	4.0	12.5	3.93	4.1	37¾	8.22	4.6	6.6
		12.7	10.6	10.5	13.8	6.3	13.3	15.6	4.09	3.3	31	4.39	7.1	4.8
		12.0	12.9	13.9	17.3	18.4	15.7	18.3	4.16	2.0	52¼	5.66	9.2	3.4
		12.1	10.6	11.0	15.0	9.1	10.2	15.4	4.08	2.7	43¾	7.42	5.9	5.6
		13.5	12.9	12.6	20.0	18.8	11.7	15.2	3.56	2.4	39⅜	4.81	8.2	3.6
		12.7	14.4	15.7	20.2	22.1	12.5	18.7	4.60	1.9	34	3.48	9.8	2.7
		12.8	12.6	15.1	19.4	23.8	15.3	16.9	4.56	2.6	60½	6.61	9.2	3.5
		11.3	8.4	8.2	9.0	2.6	9.3	12.9	3.90	3.0	26⅞	6.08	4.4	7.4
		19.4	6.2	5.1	8.0	6.2	6.1	12.5	3.29	4.7	35¼	7.49	4.7	8.5
		13.7	11.9	11.1	13.6	4.7	12.6	16.0	4.78	4.1	28¼	4.48	6.3	4.5
		13.3	11.9	7.8	36.0	46.7	—	8.0	3.49	4.9	—	—	—	—
		16.1	10.1	10.2	22.1	7.4	10.0	14.5	3.78	3.4	15¼	2.60	5.9	5.2
		5.0	12.3	15.2	19.9	-5.6	—	12.7	4.90	6.1	—	—	—	—
		7.8	5.3	5.0	–2.9	-3.0	7.5	9.8	2.91	5.1	26¼	4.51	5.8	7.6
		56.6	16.9	28.2	30.6	85.3	30.4	21.1	3.47	1.9	28¾	5.15	5.6	4.2
		22.2	8.8	9.5	11.9	6.4	11.5	14.1	3.85	2.7	46	7.77	5.9	6.5
		9.1	7.1	7.9	9.3	19.4	5.9	11.6	4.49	4.7	31¼	6.89	4.5	9.3
		23.0	6.2	11.1	31.2	16.6	15.9	12.8	5.37	4.0	19⅞	3.23	6.2	5.0
		9.9	7.3	7.3	4.5	17.9	8.5	10.9	3.29	4.5	36	6.51	5.5	6.8
		5.8	13.0	9.5	8.0	–9.3	19.5	16.6	4.90	4.6	18½	3.98	4.6	6.5
		14.1	13.1	14.5	26.1	13.1	14.3	18.1	5.49	3.5	36⅞	5.26	7.0	4.3
		9.8	8.6	8.8	11.7	6.2	9.2	13.8	4.75[9]	3.1[9]	23⅜	3.61	6.5	5.6
		17.0	5.7	0.3	10.9	–9.4	—	6.1	3.70	9.4	—	—	—	—
		8.5	9.2	8.0	7.0	–12.2	13.4	13.6	3.43	3.4	20	4.19	4.8	10.0
		12.2	9.7	10.6	11.3	13.7	9.6	13.9	5.12	3.3	22¼	3.08	7.2	4.3
		6.0	6.9	5.5	5.3	–9.4	11.3	11.5	4.55	2.7	30	5.62	5.3	9.1
		–19.8	–11.7	–39.3	P–D	P–D	–36.1	–6.2	2.46	—	4⅜	–9.28	def	0.0
		20.0	9.2	7.8	4.3	–2.9	11.6	15.6	4.16	2.4	33½	5.97	5.6	8.2
		12.6	13.8	13.6	17.5	19.1	11.7	19.9	4.71	2.5	26¼	2.99	8.8	3.8
		9.2	11.2	9.8	10.7	1.0	18.7	15.3	5.27	4.5	25¼	4.15	6.1	5.4
		5.6	3.8	–1.1	–22.8	–73.3	6.5	8.8	4.02	20.5	14	0.99	14.1	5.7
		9.8	13.6	13.3	15.3	10.4	10.4	18.1	5.71	2.6	29	4.03	7.2	4.1
		6.9	8.5	6.7	8.5	–15.2	12.0	13.8	3.85	4.5	21½	5.48	3.9	10.2
		9.9	7.9	10.4	13.9	17.2	2.2	14.8	3.78	2.6	26⅞	6.42	4.2	9.2

s. [3]Net interest income on a tax-equivalent basis as a percentage of average earning assets. [4]From continuing operations before security gains or losses excluding gain on ing company. [9]Bank only. [10]Includes the results of nonbank operations where applicable. [11]Growth based on year-end assets. P–D: profit to deficit.

1981 Annual Banking Survey

100 largest bank holding companies: a statistical profile

	1980 size measures ($millions)											
Rank	Total assets	Total deposits	% domestic demand deposits	Total loans	Loan loss res as % of loans	Total invest-ments	Standby letters of credit	Total capital	Long-term debt % capital	Total operating income	Net income[4]	Company and headqua
51	$4,524	$3,245	34.6%	$2,708	1.1%	$ 742	$64	$280	25.0%	$514	$29.4	First Wisconsin (Wisc)
52	4,431	3,573	40.9	2,069	1.3[5]	1,305	23	329	25.4	435	38.0	Barnett Banks of Fla (I
53	4,386	3,183	43.7	2,599	1.2	441	89	359	31.0	453	35.0	Girard (Pa)
54	4,341	3,295	47.9	2,337	2.0	756	26	273	7.7	460	37.2	Citizens & Sthn Ga (C
55	4,271	2,868	42.3	2,077	1.1[5]	682	67	288	15.4	417	32.3	First Union Bancorp (V
56	4,158	3,243	41.7	2,025	1.2	617	54	273	17.6	378	30.9	Southwest Bancshs (T
57	4,063	2,951	33.0	2,471	1.1	360	38	329	23.1	418	32.0	Maryland National (M
58	3,947	3,264	13.2	1,993	1.0	588	71	226	16.8	395	11.7	Bank of Tokyo Trust[7]
59	3,919	3,058	35.8	2,102	1.3	766	22	236	18.7	298	20.9	First Natl State Bcp (N
60	3,852	2,618	32.5	1,917	1.5[5]	622	33	246	26.2	397	17.9	BanCal Tri-State (Cal)
61	3,621	3,146	29.3	2,416	1.1	600	58	207	30.1	382	17.8	California First Bnk[8] (
62	3,601	2,705	30.7	2,057	1.1	521	20	404	33.8	396	41.1	First Security (Utah)
63	3,565	2,376	25.3	1,451	1.4	1,068	41	271	30.2	351	26.0	Centran (Ohio)
64	3,456	2,502	44.9	1,788	1.5	535	32	202	17.7	346	17.4	Shawmut (Mass)
65	3,454	2,673	34.3	2,365	1.1	445	55	333	37.0	367	34.2	United Virginia Bshs (
66	3,452	2,478	17.7	1,992	1.6[5]	771	33	358	48.3	405	28.2	Industrial National (RI
67	3,435	2,502	30.4	2,011	1.1	536	32	268	32.4	347	20.8	Lincoln First Banks (N
68	3,431	2,603	26.1	1,682	1.3	901	23	257	13.3	340	28.6	Society (Ohio)
69	3,404	2,628	37.4	1,863[5]	1.5[5]	569	27	244	19.5	310	28.8	Midlantic Banks (NJ)
70	3,371	2,554	40.0	1,814	1.2	620	51	279	25.5	336	30.2	Texas American Bshs (
71	3,316	2,451	38.6	1,731	1.7[5]	386	65	232	31.7	336	14.2	Fidelcor (Pa)
72	3,312	2,863	39.0	1,609	1.1	845	14	242	16.2	326	29.8	Sun Banks of Florida (F
73	3,282	2,270	35.8	1,856	1.7[5]	519	24	280	37.1	388	28.2	First Union (NC)
74	3,259	2,559	38.2	1,707	1.3	656	49	240	14.9	265	23.4	Fidelity Union Bncp (N
75	3,207	2,717	32.1	1,706	1.0	873	30	215	11.9	307	26.5	BayBanks (Mass)
76	3,175	2,331	46.6	1,762[5]	1.1[5]	383	59	201	25.7	330	21.4	CBT (Conn)
77	3,149	2,501	40.6	1,539	1.0	469	54	182	3.1	289	24.3	Riggs Natl Bank[8] (DC)
78	3,147	2,292	57.0	1,563	1.5	288	21	254	31.8	331	24.0	First Atlanta (Ga)
79	3,112	2,196	60.3	1,434	2.3	539	25	232	19.6	338	37.7	Trust Co of Georgia (G
80	3,009	1,902	47.1	1,128	1.9	671	41	213	33.0	317	21.8	State Street Boston (Ma
81	2,916	2,267	36.2	1,529	1.4[5]	610	17	246	27.6	298	23.7	First Tennessee Natl (T
82	2,890	2,221	33.6	1,403	1.5	420	58	201	30.0	353	21.4	New Eng Merchants (M
83	2,863	2,087	25.6	1,517	0.9	799	58	162	23.7	290	9.6	Equimark (Pa)
84	2,855	2,469	41.0	1,744	1.8	543	86	231	22.6	294	37.3	Allied Bancshares (Tex
85	2,831	2,133	32.1	1,513	1.1	483	12	193	12.7	277	22.8	Huntington Bancshs (C
86	2,824	2,321	30.3	1,568	1.2	705	24	239	15.0	300	33.4	Banc One (Ohio)
87	2,765	2,235	39.1	1,450	1.4	605	30	234	7.2	279	25.0	Commerce Bancshares
88	2,753	2,209	56.9	1,374	1.2	326	60	134	26.6	245	13.8	Hartford National (Con
89	2,752	1,944	36.0	1,549	1.5	589	62	251	15.9	295	30.9	Provident National (Pa)
90	2,740	2,076	45.0	1,520	1.1	436	57	215	26.8	287	24.2	United Banks of Colo (
91	2,739	2,138	39.9	1,593	1.6[5]	608	23	255	22.4	282	28.3	Alabama Bancorp (Ala)
92	2,714	2,156	28.2	1,467	1.1[5]	399	49	176	4.7	273	24.4	American Security (DC
93	2,709	2,344	29.5	1,786	1.1	361	24	144	5.2	301	14.8	Lloyds Bank Calif[7,8] (C
94	2,704	2,172	36.4	1,518	1.2	510	29	237	33.5	288	23.4	Virginia Natl Bkshs (Va
95	2,657	1,773	30.7	1,384	1.3	392	17	170	6.1	293	19.1	American Fletcher (Ind
96	2,630	2,061	32.2	988	1.4	557	9	153	20.2	281	24.1	Banco Popular[8] (PR)
97	2,628	2,066	40.7	1,476	1.0	451	21	171	29.3	237	14.9	United Jersey Banks (N
98	2,527	2,097	36.7	1,299	1.6	719	10	224	23.8	196	16.5	Key Banks (NY)
99	2,526	2,010	28.8	1,443	1.2	515	14	204	24.8	257	22.2	Dominion Bankshares (
100	2,499	1,957	53.4	1,398	1.1[5]	291	93	191	21.7	270	21.0	First Natl Bancorp (Col
			32.1		1.2				24.9			MEDIANS

[1]Four-year average is a compounded annual rate: 1976/80. [2]From continuing operations after security gains or losses excluding gain on sale of operations and extraordin sale of operations and extraordi[illegible] [5]Includes leases [6]Includes guarantees [7]Company not publicly traded stock data not available [8]Bank only; not organized [illegible] def deficit NA Not available

	Growth measures[1]						Profitability & cost measures			Stock data			
	verage assets		Equity per share		Earnings per share[2]		Dividend	Return	Net interest	Overhead				
	ear rage	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	on equity 4-yr avg	margin[3] 1980	times NI 1980	Recent price	1980 EPS[2]	P/E ratio	Current yield
%		–1.0%	5.5%	5.2%	23.4%	33.8%	1.7%	11.3%	3.53%	4.3	31	$7.09	4.4	6.1%
		15.9	9.9	12.8	28.5	20.4	11.2	14.1	5.90	4.4	32¾	4.42	7.4	3.7
		–0.4	8.1	8.4	36.6	3.6	5.0	13.9	4.54	3 5	24¾	6.30	3.9	9.1
		12.5	5.8	13.4	25.2	55.7	–11.4	7.4	5.77	4.8	8⅝	1.23	7.0	4.6
		7.2	8.2	8.7	9.1	10.1	6.9	13.3	4.28	3.3	20¼	4.37	4.7	7.7
		15.5	8.8	9.4	12.6	21.9	9.9	13.5	4.80	3.1	37	4.51	8.2	4.2
		10.6	9.5	10.6	17.6	22.6	6.9	13.0	5.37	4.1	21¼	4.28	5.0	4.7
		21.6	8.1	6.9	4.8	–11.0	—	8.1	NA	2.3	—	—	—	—
		6.8	3.3	–2.3	14.1	14.9	2.4	11.7	4.19	4.0	21⅜	5.09	4.2	10.3
		9.7	8.2	5.9	61.1	–13.5	8.1	9.2	3.98	6.5	26⅝	3.64	7.3	4.5
		11.2	10.1	9.0	14.7	–9.4	16.9	14.5	4 41	6.5	14⅞	3.17	4.7	7.3
		2.6	12.4	11.3	10.7	7.1	8.3	17 2	5.26	3.0	26½	3.18	8.3	3.8
		10.8	7.4	8.3	9.9	7.4	7.8	12.7	3.70	3.6	24¼	6.21	3.9	10.6
		9.5	6.3	7.4	29.7	12.9	14.0	8.4	4.67	6.6	24¾	4.47	5.5	6.1
		6.3	10.1	12.2	22.7	19.2	9.3	14.7	5.53	3.8	32⅜	5.83	5.6	6.2
		9.7	8.9	10.4	19.7	16.6	7.5	15.0	4.14	3.4	22	4.57	4.8	8.0
		2.6	4.6	3.8	9.8	–11.5	1.6	11.1	4.74	6.8	26	4.30	6.0	7.7
		14.9	7.0	8.4	8.4	–2.0	12.6	13.1	4.47	3.6	18½	3.90	4.7	7.8
		12.5	5.3	6.6	36.5	11.3	4.2	15.4	5.59	3.7	30½	8.68	3.5	8.3
		11.5	10.5	11.5	15.9	17.5	16.2	14.5	5.07	3.0	34½	4.56	7.6	3.8
		0.8	0.4	10.1	–5.0	188.9	–35.5	2.8	4.15	8.2	15⅝	2.34	6.7	3.1
		23.5	7.4	9.0	38.2	24.8	8.1	12.0	5.57	4.4	18⅛	2.52	7.2	4.9
		13.2	9.4	12.4	35.3	14.7	4.4	14.7	4.60	4.5	19½	3.89	5.0	5.3
		22.6	6.4	6.9	6.6	4.3	3.9	11.9	5.47	4.1	28	6.12	4.6	10.0
		7.6	8.5	11.6	25.0	19.0	6.0	13.1	5.89	4.4	37	8.82	4.2	8.1
		10.9	7.0	8.1	25.5	16.9	6.7	12.5	5.27	5.2	28¼	5.96	4.7	7.1
		15.1	8.3	9.5	16.9	12.0	7.2	13.7	4.91	2.9	61½	8.13	7.6	4.9
		2.0	7.3	10.8	18.9	31.0	4.2	12.3	6.88	5.2	22¼	3.38	6.5	5.1
		7.2	11.2	15.6	35.7	28.3	9.5	16.9	7.07	3.6	26¾	3.49	7.7	3.9
		16.8	8.1	16.7	32.6	37.6	–3.3	9.7	4.68	5.3	41	9.33	4.4	5.9
		11.1	9.3	9.2	27.6	7.9	16.5	13.7	5.47	4.1	12¼	2.60	4.7	7.5
		17.8	9.8	11.6	19.0	22.1	5.9	15.4	4.26	4.0	32⅜	6.85	4.7	6.5
		6.8	1.0	1.2	–2.1	19.2	2.2	9.1	2.64	6.9	9	1.80	5.0	10.7
		28.5	18.5	21.1	24.2	27.3	25.9	23.6	6.13	1.9	37⅛	3.36	11.0	2.4
		6.9	10.2	10.7	17.5	7.6	7.8	14.7	5.04	3.7	27¼	6.83	4.0	7.3
		13.3	11.7	11.7	14.3	10.4	13.4	17.6	5.85	2.7	33¼	4.76	7.0	5.4
		9.8	8.4	9.2	14.2	18.8	8.9	13.0	5.51	3.1	24¾	5.62	4.4	6.8
		–2.0	8.3	9.9	35.0	47.4	4.8	10.3	4.56	6.2	23⅛	4.85	4.8	6.9
		10.6	8.4	9.1	49.3	35.9	6.9	12.0	4.45	2.7	34¼	6.81	5.0	7.6
		11.6	9.4	11.3	15.1	8.2	8.4	15.4	6.40	4.2	37⅜	5.12	7.3	4.5
		8.1	9.8	10.1	13.3	12.2	6.1	15.6	5.70	3.2	22¾	3.85	5.9	6.3
		14.1	9.7	10.6	10.8	12.2	4.8	15.2	4.21	2.1	44¾	6.62	6.8	5.4
		12.2	12.9	9.0	34.7	–1.3	—	11.6	5.30	7.0	—	—	—	—
		2.5	9.1	7.6	12.9	–4.3	7.8	15.0	6.15	5.5	14⅞	2.93	5.1	8.1
		6.4	9.3	9.6	26.6	0.0	1.7	13.4	3.50	4.0	17¼	4.16	4.1	7.2
		6.4[11]	9.4	8.6	29.5	29.0	8.7	15.9	5.58[9]	4.3	23¼	7.82	3.0	6.9
		3.1	5.7	7.0	14.8	12.1	0.9	11.9	3.91	5.1	13	2.69	4.8	8.8
		5.6	4.2	–10.1	7.3	10.9	4.7	13.1	5.38	4.2	13⅛	3.36	3.9	9.1
		8.2	3.4	8.6	7.9	–2.7	12.8	14.4	5.13	4.1	14¼	2.49	5.7	7.0
		4.2	9.9	10.9	16.6	26.7	7.6	14.4	6.77	4.9	22½	4.18	5.4	5.3
		11.4	**8.9**	**9.5**	**15.2**	**12.1**	**8.4**	**13.8**	**4.49**	**4.0**			**5.5**	**6.2**

s. [3]Net interest income on a tax-equivalent basis as a percentage of average earning assets. [4]From continuing operations before security gains or losses excluding gain on ing company [9]Bank only. [10]Includes the results of nonbank operations where applicable [11]Growth based on year end assets. P–D profit to deficit.

The 50 largest trust operations

It was a great year for the stock market and, accordingly, for most of the nation's biggest bank trust departments. The 50 giants below managed some $374 billion in 1980, vs. $327 billion in 1979. J.P. Morgan, biggest of the big, as usual, ended the year with a 19% gain in assets under management.

1980 rank	Company	Market value of trust assets* 1980 (millions)	Market value of trust assets* % increase over 1979	Trust department revenues total (thousands)	Trust department revenues % change from 1979	Trust department revenues % of total operating revenues
1	JP Morgan	$36,119	18.9%	$147,627	15.3%	2.9%
2	Citicorp	26,317	3.4	109,310	23.9	0.8
3	Manufacturers Hanover	18,285	7.8	64,138	14.4	1.2
4	Bankers Trust	17,686	22.3	63,368	3.7	1.7
5	Mellon National	12,634	2.5	28,250	15.6	1.8
6	Harris Bankcorp	12,499	7.4	38,837	14.5	5.4
7	Chase Manhattan	11,198	19.2	73,690	17.7	0.9
8	Provident National	10,440	40.3	26,376	29.7	8.9
9	US Trust	9,650	0.4	52,304	6.5	23.4
10	First Chicago	9,594	9.8	44,211	22.2	1.3
11	Continental Illinois	9,455	23.7	44,809	19.7	1.0
12	BankAmerica	9,269	31.6	60,520	11.1	0.5
13	Wells Fargo	9,175	28.3	28,928	11.0	1.1
14	Northern Trust	9,147	17.3	48,844	16.5	7.9
15	Chemical New York	9,094	10.9	49,811	13.0	1.2
16	Western Bancorp	8,656	3.9	44,190	15.2	1.3
17	Wilmington Trust	8,439	25.4	12,315	20.0	8.4
18	Crocker National	8,295	38.6	31,359	28.6	1.6
19	First Bank System	8,279	10.9	33,182	15.4	2.5
20	First National Boston	7,830	26.0	40,577	18.5	1.7
21	National Detroit	6,669	–10.5	27,874	12.6	2.7
22	Bank of New York	6,643	17.9	71,383	38.3	6.5
23	AmeriTrust	6,180	17.5	27,003	14.7	4.8
24	Fiduciary Trust Co of NY	5,794	20.4	16,151	–1.4	67.3
25	Capital Guardian Trust	5,647	25.5	NA	NA	NA
26	First International Bancshares	5,318	38.0	18,766	16.2	1.4
27	First Union Bancorp	5,202	16.4	16,610	12.4	4.0
28	Northwest Bancorporation	5,081	12.6	26,915	10.4	1.8
29	Girard	4,800	14.3	21,155	14.0	4.7
30	Security Pacific	4,243	7.4	32,452	8.1	1.0
31	Republic of Texas	4,215	12.6	20,140	14.4	1.6
32	American Natl (Chicago)	4,149	44.3	10,622	12.4	4.0
33	National City Corp	4,117	17.4	14,548	12.5	2.8
34	First City Bancorp	4,108	37.9	13,756	24.8	1.3
35	Irving Bank Corp	3,510	7.5	24,863	6.0	1.4
36	State Street Boston Corp	3,467	32.6	28,716	30.8	9.0
37	Boatmen's Bancshares	3,298	20.6	6,264	12.4	3.4
38	Citizens & Southern Ga	3,246	16.8	9,728	4.9	2.1
39	DETROITBANK	3,212	7.7	15,428	20.3	2.9
40	First Wisconsin Corp	3,166	13.3	13,375	18.6	2.6
41	First Pennsylvania	3,158	1.9	16,603	13.1	2.2
42	Marine Midland	3,106	11.8	18,885	3.8	1.0
43	Trust Co of Georgia	3,093	7.6	15,795	13.4	4.7
44	Mercantile Bancorp	3,093	16.0	10,899	11.3	2.3
45	Wachovia Corp	3,083	0.7	17,791	13.1	3.2
46	Tex Commerce Bancshares	2,940	52.4	13,602	11.9	1.3
47	Mercantile Bankshares	2,909	12.6	15,127	16.3	10.6
48	Pittsburgh Natl Corp	2,876	12.0	17,737	9.0	2.8
49	American Fletcher Corp	2,823	9.3	7,705	21.1	2.6
50	Hartford National	2,822	18.8	14,656	18.3	6.0

*Includes accounts over which the bank exercises investment discretion. NA: Not available.

ment trusts nearly wiped out dozen banks. Manufacturers Hanover has b bracing for it. "We increased our res for possible loan losses by $28 mil last year, to a record $272 million," s McGillicuddy. "Moreover, the cha offs of $59 million last year, up from million the year before, reflect our re nition of all known problem credits. enter 1981 with a clean slate."

Not every bank can say the same. L loss ratios *(see tables, pp. 136-139)* h kept pace with neither the rising do volume of loans outstanding nor the clining cash positions of so many of banks' corporate borrowers. If Ma Hanny with its "clean slate" exp loan losses to hurt operating profits seems reasonable to suppose a g many other banks will suffer, too.

Analyst Charles Lott, one of the o mists about bank stock prospects, c cedes that loan losses will increase year. He estimates they will rise fr 0.35% of loans outstanding last yea between 0.40% and 0.45%. (In 1975 figure was 0.65%.) But Lott points that banks will be earning more fr their larger loan portfolios. Earni gains in the 5%-to-8% range, he thin would be more than enough to offset larger loan losses he foresees. And to extent that bank earnings are be squeezed by high interest rates, they get some relief as interest rates declin

But such flat predictions are danger at a time when the Fed's policy is "wa the money supply, interest rates damned." This policy virtually guarant wildly fluctuating interest rates. First tional Bank of Chicago and First Penn vania Bank got into trouble when t borrowed short and lent long—this late 1979 and 1980, respectively, w interest rates were generally rising. Th why you hear a lot of bankers talking th days about "funds management" or terest-rate sensitivity management." jargon for a piece of common sens paying close attention to the rates maturities of the money they borrow the rates and maturities of the loans t extend. It's a delicate art these days.

A lot of bank stock analysts think t the more closely banks watch th things the less chance there will be f costly mismatch. That's not necessa so, says Donald B. Riefler, chairman Morgan Guaranty's sources and uses funds committee. "Programs to ma assets and liabilities must leave so room for risk taking," he says. "Oth wise, pure balancing of assets and liab ties limits the earnings potential as w as the loss potential."

You can expect the banks to do th damnedest to avoid mismatches of sets and liabilities over the long te but, as Riefler insists, don't expect ba earnings to be bombproof from quarte quarter. Especially this year. ■

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Swiss Bank Corporation

If they tried to mark their portfolios to market, it seems as if the would hardly be a solvent savings and loan in the country.

Who will clean up the mess?

"AN EDUCATED CONSUMER IS our best customer." So goes the advertising for a large New York discount clothing chain. You won't hear the thrifts talking that way. Educated consumers are *their* downfall. It's not that the thrifts were actively cheating anyone. It's simply that they were the most convenient way for the ordinary American to save and the thrifts didn't have to pay more than 6%—no matter how high market rates were—because that was the maximum the law permitted them to pay. The law, in its lack of wisdom, wanted to make sure the thrifts had plenty of low-cost money to lend to prospective home buyers. If the saver was be shortchanged, our lawmakers di seem to care. The silly situation wor as long as the average saver eit couldn't get a better rate or didn't kr how to go about it. But now the cons er *is* educated. Thanks to the money n ket funds and widespread advertisin

The 25 largest savings and loan associations

Margins are under intense pressure: The more they lend, it seems, the more they lose. No surprise, then, that many savings and loan institutions are in the red—or headed there—for the first time in history.

	1980 size measures ($ millions)							
Rank	Total assets	Savings accounts	Loans receivable	Investment securities	Advances from FHLB	Total revenues	Net income	Company (location)
1	$13,110	$10,072	$11,391	$ 216	$1,343	$1,371	$48.1	H F Ahmanson (Cal)
2	10,253	7,774	8,573	1,324	1,055	997	39.2	Great Western Financial (Cal
3	9,676	7,211	8,841	516	673	955	39.2	First Charter Financial (Cal)
4	7,347	5,481	6,155	711	821	714	40.7	Imperial Corp of America (C
5	6,397	4,612	5,474	575	684	575	6.2	California Federal S&L[2] (Cal)
6	5,579	3,418	4,017	1,268	791	485	38.1	Golden West Financial (Cal)
7	5,006	3,740	4,160	550	519	471	20.1	Glendale Federal S&L[2] (Cal)
8	4,431	2,972	4,021	160	786	458	26.7	Home Federal S&L[2] (Cal)
9	4,295	3,017	3,934	221	771	426	–7.9	Gibraltar Financial (Cal)
10	3,687	3,074	3,243	262	338	329	6.8	First Fed S&L of Detroit[2] (Mi
11	3,467	2,662	2,332	241	341	307	–6.9	Talman Home Federal S&L[2] (
12	3,395	2,693	2,660	462	212	270	3.2	First Federal S&L Chicago[2,3]
13	3,317	2,939	2,898	53	167	288	4.8	Standard Federal S&L[2] (Mich)
14	3,021	2,211	2,633	260	260	295	5.0	Coast Federal S&L[2] (Cal)
15	3,018	2,276	2,672	200	420	274	4.4	Allstate S&L[4] (Cal)
16	2,900	2,194	2,500	127	270	296	24.9	United Financial of Calif[5] (Ca
17	2,854	2,213	2,517	250	321	291	9.4	AmeriFirst Federal S&L[2] (Fla)
18	2,853	1,657	2,597	60	976	282	–1.4	Fidelity Financial (Cal)
19	2,615	2,107	2,126	415	177	207	–26.2	West Side Federal S&L[2,3] (N
20	2,492	1,974	2,260	141	269	230	9.8	First Federal S&L Broward[2,3]
21	2,474	1,906	2,194	157	350	225	1.9	Twin City Federal S&L[2] (Min
22	2,456	1,856	2,157	89	292	264	9.4	San Diego Federal S&L[2,3] (Ca
23	2,362	2,003	2,149	32	154	228	2.9	Financial Federation (Cal)
24	2,337	1,746	1,990	207	218	220	3.3	City Federal S&L (NJ)
25	2,297	1,793	1,949	180	234	175[6]	12.5[6]	Community Federal S&L[2,3] (N

[1]Four-year average is a compounded annual rate: 1976/1980. [2]Mutual savings and loan association. [3]Based on data from the Federal Home Loan Bank. [4]Subsidiary of S

ıgs certificates, the public knows *ex-* where to go to get 15% or better. So, are the thrifts sitting with all those -term mortgages at 10% and less and ring them with 15% money.

ıe numbers themselves tell a stag- ıg story. As recently as late 1978, ıgs and loans bulged with $365 bil- in passbook and time deposits car- the lowest interest rates—general- ıying 5.5% but going as high as 8%. e then more than a quarter of a on dollars in these funds have run leaving the S&Ls with only $105 ın in low-interest deposits. To re- the lost deposits, the S&Ls have to pay between 13% and 15% on ly $300 billion in certificates. The h part is that many of the certifi- holders are former depositors who ld no longer accept minimal returns. net interest cost to the S&Ls of the ge in asset mix will be close to $25 ın this year.

ıe of the early financial crises the an Administration may have to face involve the thrifts.

ıe depositors, happily, aren't likely to urt. The Federal Savings & Loan Insurance Corp. and the Federal Home Loan Bank Board will both see to that. However, a large number of the savings institutions themselves will disappear into the merger with stronger thrifts. The Reagan Administration, which wants no more Chrysler-type bailouts, will also insist on protecting them.

Most of the thrift industry is now in the red—paying out more in interest and expenses than it is taking in. Inevitably the weaker ones will fail and the federal authorities will force them to merge with stronger units—on terms that can only be favorable to the stronger units.

The wait, however, for the emergence of fewer but stronger units may wind up being a long one.

The moral of the story is that lending long and borrowing short is a very dangerous practice, especially in inflationary times. And yet, that, in effect, is what the thrift industry is all about: borrowing short, lending long.

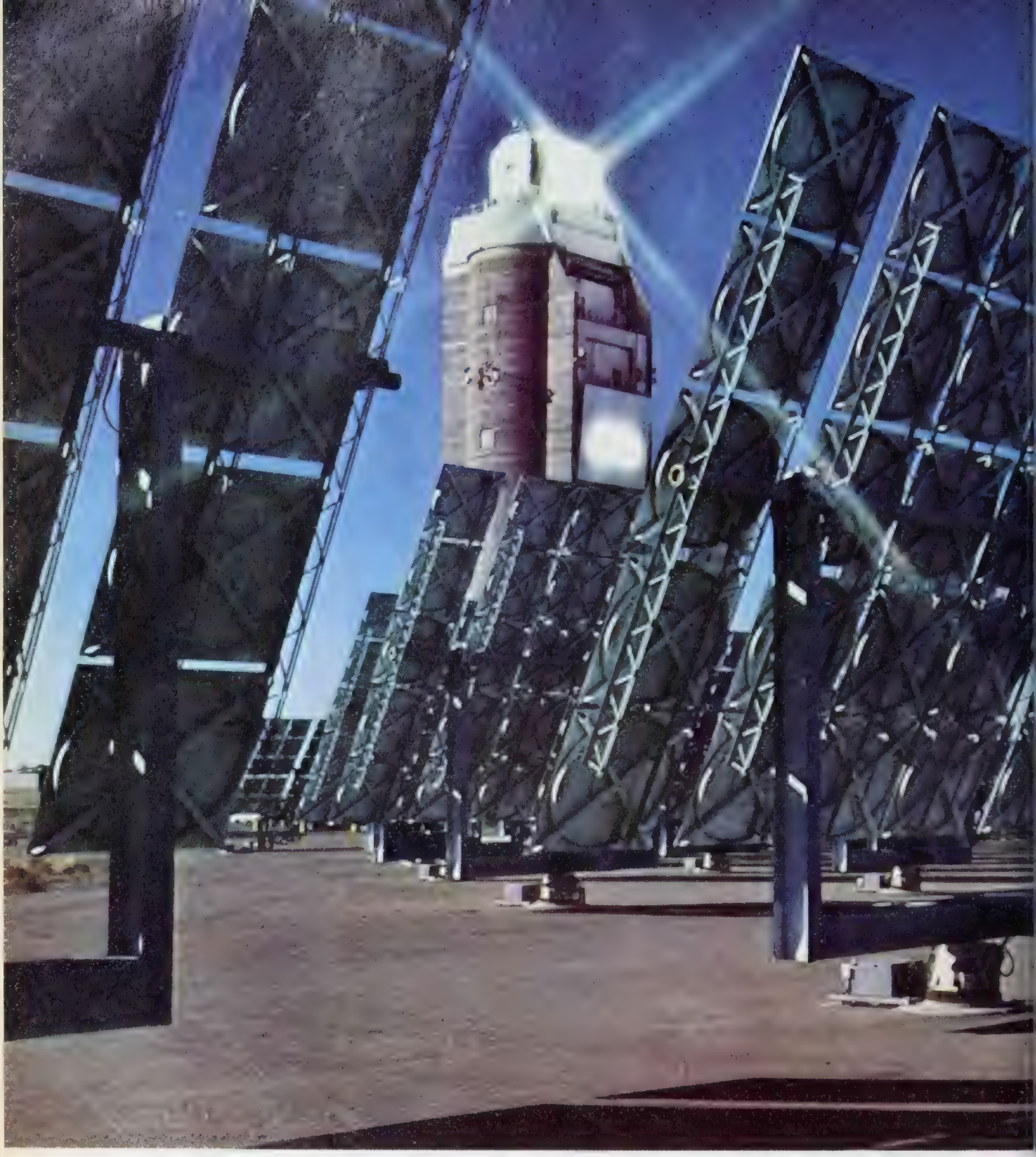
There is one ray of light. Unlike steel mills or other brick-and-mortar investments, home mortgage portfolios are self-liquidating. Every monthly payment consists of some interest and amortization. If it can hang on long enough a thrift can replace its cheap mortgages with more expensive ones. Somewhere along the line, the spread between the cost of borrowed money and what it can earn will come back into balance. That's why there is some bargain-hunting going on now among the publicly owned thrifts by people who can afford to wait for the payoff. There is this attraction for them: Nearly all the publicly owned thrifts now sell at about 55% to 60% of book value, a bigger discount than the usual 75% of book.

That's the positive side: hope for an eventual turnaround and currently depressed stock prices. The negative side, however, is this: If you had to sell those low-interest, long-term mortgages on the open market, there would hardly be a single thrift institution in the U.S. that would be solvent.

For a generation, the thrifty of this country have been subsidizing home and property owners. That game is now over. The thrift industry is left to clean up the mess. Meanwhile, who will finance a revival of home-building? That's a good question. So far there haven't been any good answers.—**Ben Weberman**

	Growth measures[1]							1980		
	Assets	Savings		Net income		Revenues		Yield on earnings assets	Cost of funds	Spread
	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979	4-year average	1980 vs 1979			
%	8.0%	11.1%	7.7%	–8.4%	–59.0%	18.9%	13.2%	10.77%	10.13%	0.64%
	8.4	10.6	5.3	–5.6	–57.9	20.2	13.5	10.83	10.14	0.69
	1.3	9.4	–0.7	–13.9	–56.8	18.8	12.9	10.32	10.72	–0.40
	12.7	11.8	10.7	0.0	–45.2	20.7	22.4	10.78	10.28	0.50
	3.2	11.4	2.7	–30.7	–84.2	17.7	2.4	10.23	9.92	0.31
	43.5	18.5	20.3	15.6	4.3	29.6	32.8	10.92	11.26	–0.34
	16.4	13.9	14.2	–0.5	–44.4	23.6	23.4	10.93	10.08	0.85
	10.3	16.2	9.1	9.1	–37.4	25.4	20.4	11.01	9.64	1.37
	6.3	11.2	–5.8	P–D	P–D	25.7	17.8	10.51	10.76	–0.25
	12.6	12.3	10.6	–12.2	–63.8	21.0	17.8	9.88	9.78	0.10
	6.2	9.0	6.9	P–D	P–D	16.8	10.6	9.32	10.49	–1.17
	20.7	16.3	27.4	–10.3	–70.3	19.6	21.4	NA	NA	NA
	15.5	15.8	18.5	–21.2	–71.5	22.4	18.1	10.10	9.75	0.35
	8.6	10.5	9.2	–15.7	–74.2	21.3	19.4	NA	NA	NA
	11.0	33.5	7.1	–2.0	–77.9	42.9	12.8	10.17	10.21	–0.04
	4.1	6.9	2.2	15.1	–1.6	16.2	15.2	10.18	9.36	0.82
	8.9	11.6	7.6	17.4	–33.9	24.7	30.8	NA	NA	NA
	21.7	16.3	–1.1	P–D	P–D	34.2	30.8	NA	NA	NA
	20.9	22.1	23.6	P–D	P–D	30.6	25.1	NA	NA	NA
	3.7	14.8	8.2	46.9	–17.7	25.1	19.7	NA	NA	NA
	8.1	6.7	5.8	–32.7	–87.0	15.5	12.1	9.79	8.42	1.37
	10.5	18.2	12.6	3.5	–52.4	28.9	26.6	NA	NA	NA
	–1.5	6.3	0.1	–32.5	–86.8	14.4	3.6	10.38	10.39	–0.01
	22.0	16.9	27.1	–7.7	–44.7	26.3	36.1	10.67	9.43	1.24
	29.4	18.7	32.0	12.0[6]	–18.6[6]	20.5[6]	33.9[6]	NA	NA	NA

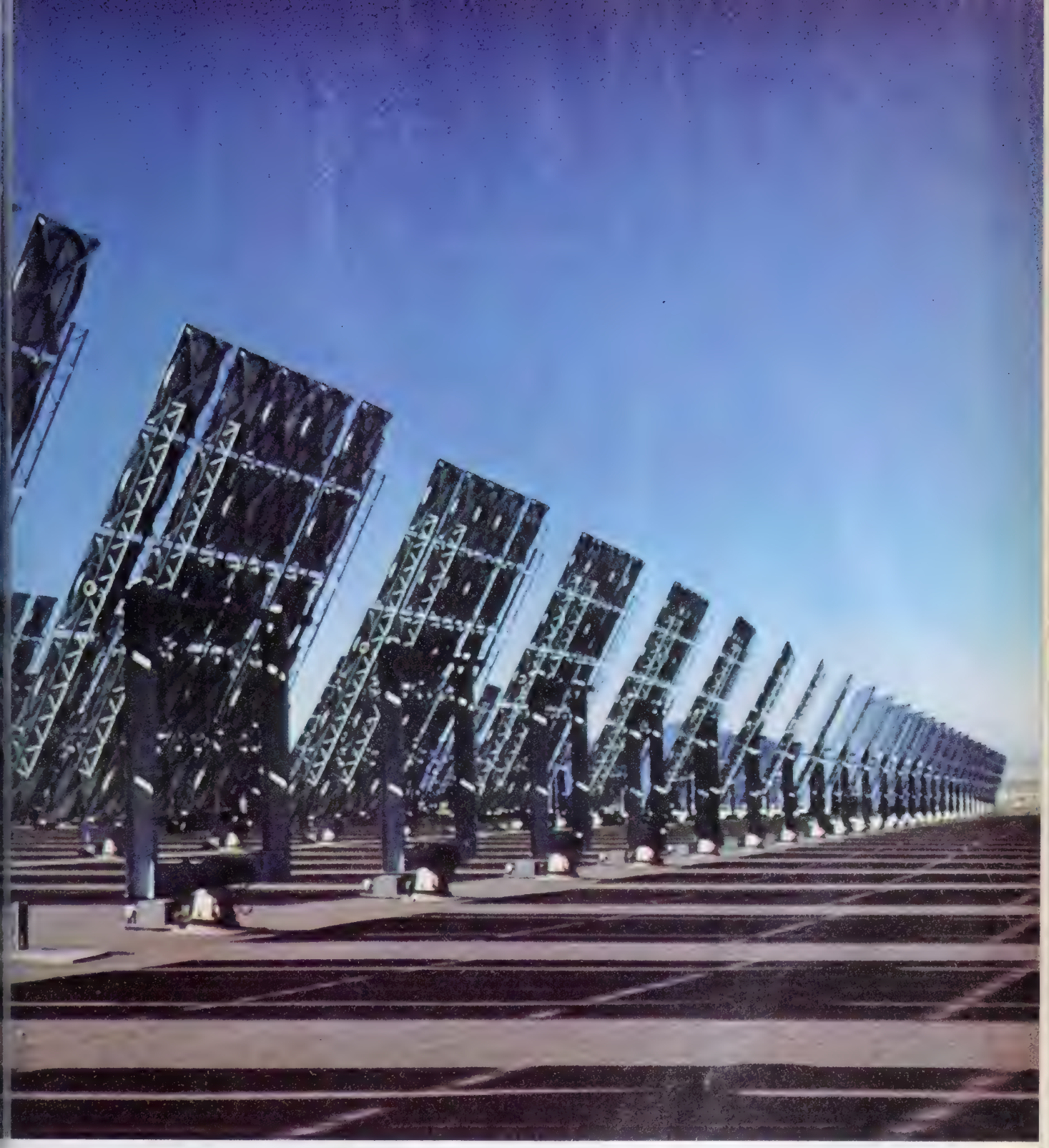
[5]Subsidiary of National Steel. [6]Figures are derived for the 12 months ending June. NA: Not available. P–D: Profit to deficit.



Solar testing facility near Albuquerque, New Mexico.

The marketplace demands more power.

Manufacturers Hanover energizes.



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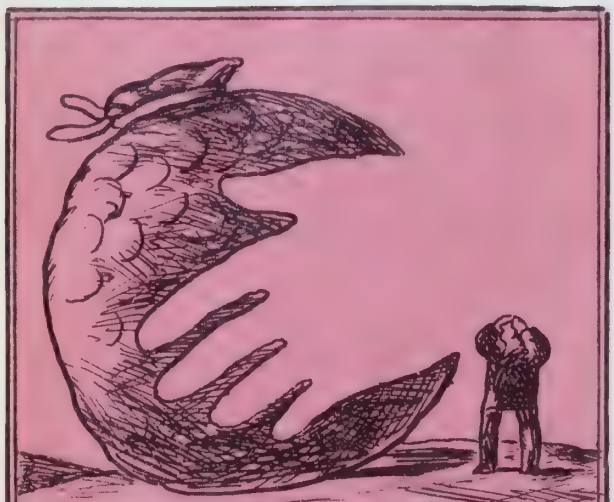
Did you know that the word "pay" derives from the Latin word f "peace"? What about "confiscate," "scot free," "scavenger," "extor "cheat" and other words that come to mind in April?

"Paying through the nose" and other taxing phrases



By Steele Commager

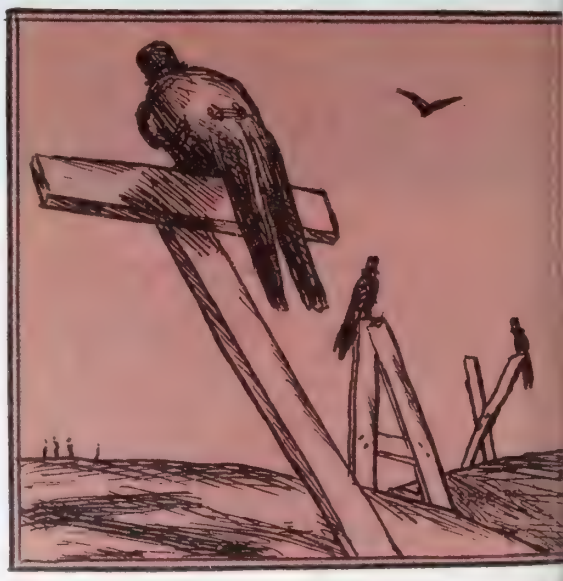
"TAX TIME" MEANS, basically, "touching time." The word "tax" comes from the Latin *taxare,* "to value by handling," which in turn derives from *tangere,* "to touch." A deceptively gentle etymology, since most of us are likely to feel not so much "touched" as rather roughly handled by the Internal Revenue Service. To add verbal insult to financial injury, we are taxed most heavily upon such things as income from capital, things defined as "intangibles." The word "intangible" also derives from *tangere,* and means "untouchable." Why, then, should our intangible assets be the most heavily taxed, our "untouchables" the most rudely "touched"? A sorry state of affairs, etymologically.

When our capital is attacked, we feel it with particular anguish—rather like being hit with a swift blow to the head. And so we should, for our "capital" is the "head" part, or chief part, of our assets. The word derives from the Latin word for "head," *caput, capitis,* and the root *capit-* has given us a number of related terms. A capital letter is larger than other letters, and stands at the head of the word; the capital of a country is its chief city; the capital of a column is its ornamental top; capital punishment used to mean only the loss of one's head; the captain of a ship is its head officer; a chapter of a book is a section that has a new heading; to recapitulate an argument is to go again through its headings, or chief points. When our capital is taxed, then, we justly feel as though our heads had been none too gently touched.

Most taxpayers are soft touches, and pay up without protest or appeal. Even so, they are apt to complain of the "confiscatory" taxes that they pay. Yet all taxes, by definition, are "confiscatory." To "confiscate" means "to seize private money for the public treasury." The word comes from the Latin *fiscus,* "basket." From the primary meaning of "basket," *fiscus* had come, by Cicero's time, to mean "the public treasury," the central money basket. "The Fisk" is still the official name of the treasury department in Scotland, and our term "fiscal policy" refers simply to how much money, through taxes, should be deposited in the government's central money basket, or *fiscus.* Those most severely maimed by the government may prefer to fashion another etymology for "fiscal." If confiscatory rates cost us an arm and a leg, may we not claim that "fiscal" poli so named because it makes of us fi cial "basket cases"?

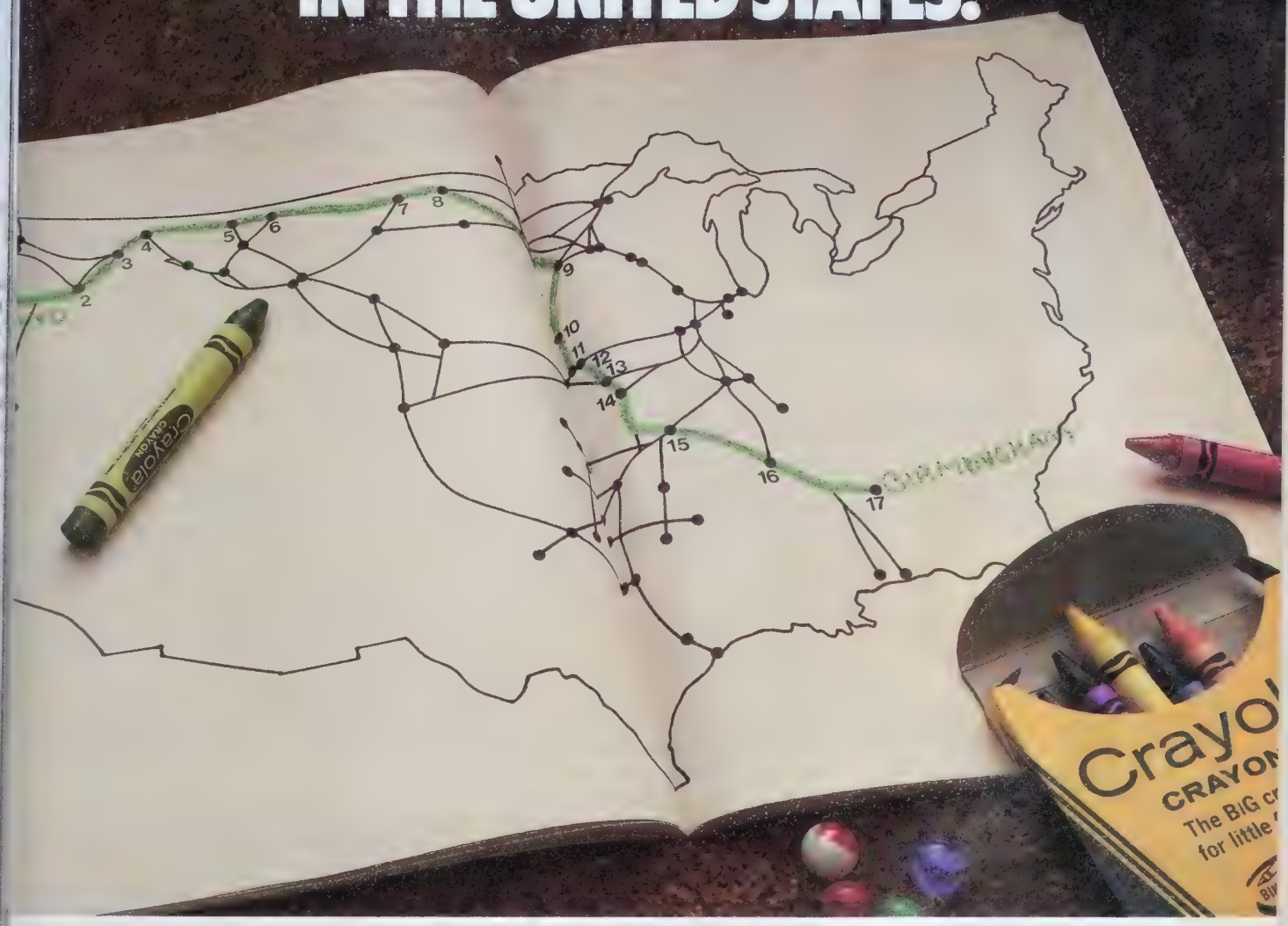
Few people are optimistic enoug suppose that they will survive tax untouched, or that they will escape " free"—a phrase that is often misun stood. We tend to think of it as mea something like "free as a Scotsman conjures up the image of a dour and p monious Scot, determined to surre nothing. In fact, "scot free" means ply "tax free," from the Middle Eng word *scot,* "tax, contribution, debt, r oning." And it is doubtful that m Scotsmen, however canny and frugal off scot free from the annual demanc their Fisk.

Those taxpayers who denounce agents as "scavengers" may be as kn edgeable as they are indignant. "Sca gers" originally meant "collectors tolls," or "inspectors," from the Flen *scawuen,* "to look at." Those offic performed a sort of customs service specting goods and levying an excise upon them. So when we accuse the agents of being "scavengers," they justly reply that they are simply d



Steele Commager is professor of Greek and Latin at Columbia University and a thoughtful taxpayer.

CONNECT THE DOTS AND DISCOVER THE LONGEST SINGLE-LINE RAIL FREIGHT HAUL IN THE UNITED STATES.

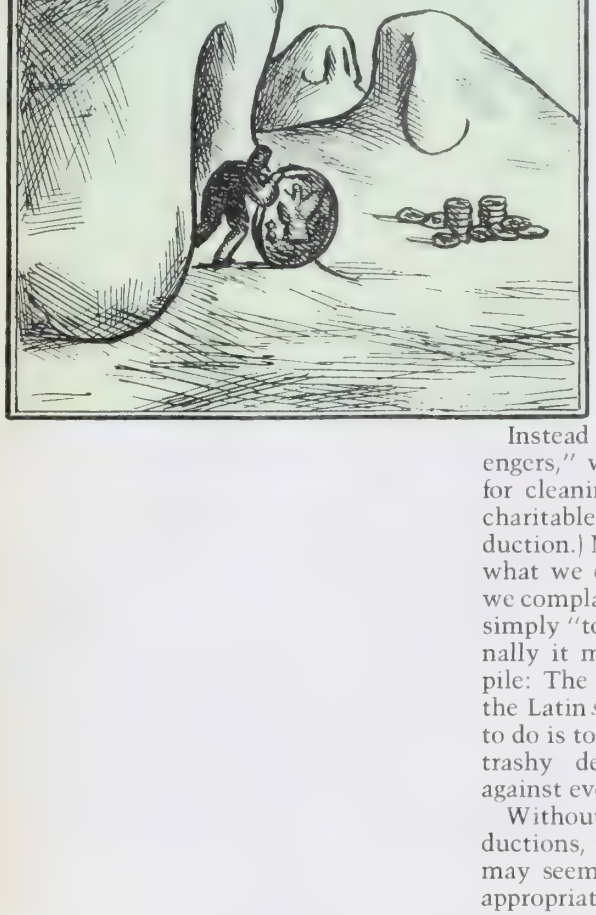


Recently, Burlington Northern completed the longest single-line freight haul ever made in this country. A 92-car BN train carrying mixed freight traveled from Portland, Oregon to Birmingham, Alabama, 3,076 miles over what is now the largest rail network in the nation.

The Portland to Birmingham train is just one example of Burlington Northern's new long-haul capabilities. A variety of other new BN trains, including a Chicago to Houston run, now offer the nation's shippers efficient single-line service connecting major industrial and port cities in the United States. If you ship where we run, discover how much we can do for you over the long haul.

BURLINGTON NORTHERN

"The Irish who refused to pay the Danes' tax were punished by having their nostrils slit."



their job, "looking at" our forms, and "collecting tolls."

"Scavenger" was also the title later given to street cleaners. It's certainly a more picturesque rubric than the pallid "sanitary engineer." There was even a guild, or union, of scavengers. Its members took an oath, preserved in a 1419 legal text, the *Liber Albus*, which should perhaps be revived: "You shall swear that you shall diligently oversee that the pavements within your Ward be well and rightly repaired, and not made too high in nuisance of the neighbours; and that the ways, streets, and lanes are cleansed of dung and all manner of filth, for the decency of the City."

Instead of abusing IRS agents as "scavengers," we might instead praise them for cleaning up our messy returns. (So charitable an attitude should merit a deduction.) Nor, when they reject much of what we offer to their scrutiny, should we complain. "Scrutinize," today, means simply "to inspect with care." But originally it meant to pick through a trash pile: The word derives ultimately from the Latin *scruta*, "trash." The best thing to do is to hand in a return unlittered by trashy deductions, and hence proof against even the keenest scrutiny.

Without some fairly imaginative deductions, the amount we end up paying may seem extortionate. An exquisitely appropriate word. To "extort" money is to "twist it out," from the Latin *ex*, "out, away," plus *torquere*, "to twist." (The past participle of the same verb is *tortus*, which gives us the English word "torture.") And when we come away from the torture of a tax audit, with every last drop of cash "twisted out" of us, we may justly complain of having been "put through the wringer."

Such extortionate payments are sometimes described as "paying through the nose." Why through the nose? Probably because such a loss seems like a spectacular flow of our very lifeblood, a hemorrhaging of our finances. Curiously, there was once an instrument of torture named the Scavenger's Daughter, that exacted much the same penalty. The name has nothing to do with the other meanings of "scavenger"; instead, it is a colloquial slurring of the phrase "Skevington's Daughter." Skevington was Lieutenant of the Tower of London during the reign of Henry VIII, when the Tower was used as a prison. He invented a ghastly machine, jocularly known as his "daughter," which bent a prisoner's head between his knees, so that b flowed from his nose and ears. Wret in the embrace of "Scavenger's Da ter" paid, brutally, through the nose

Besides the nosebleed, there is ano possible derivation of the phrase through the nose," one that seems ticularly apt at tax time. Supposedl the 9th century, the Danes impos poll (or "head") tax upon the conqu Irish: It was called a "nose tax." (really so strange a term; we still either "to count heads" or "to co noses.") Those Irish who refused to were punished by having their nos slit—they "paid through the nose."

The story, on the face of it, se unlikely. If true, it might suggest a pri tive and overly literal application o "excise" tax. An excise tax is one usu inflicted by customs officials, and me "a cutting away" (from the Latin *e dere*). The 9th-century Irish surely just cause for complaint, if their taxes were in fact excised—literall from their heads.

Most polls (or "head counts") sh that the majority of taxpayers simply the IRS whatever it demands. That w we at least find peace. And so we shou since the verb "to pay" derives ultima ly from *pax*, the Latin word for "pead The basic notion seems to be that "paying" a creditor we "appease" h and make "peace" with him.

Some of us are more bellicose, unwilling to sue for peace on the term the IRS—that is, we don't want to "pa A frequent recourse is to cheat. No good idea, as the government agents familiar with most forms of cheati They should be, since the word "che originally took its meaning from the tions of the tax collectors themselv "Cheat" is a shortened form of " cheat," which is the legal term for reversion of property to the state. cheators were once the government o cials in charge of such confiscatio "Fiscus is a comyn sacke or bagge which the Escheatour and rents gader put the comyn dette and custome tha payed to kynges," according to a le text of 1398. Apparently those Esche ors were sometimes overly zealous their duties, enriching themselves rat than the state. Hence, by the 17th ce tury the verb "to cheat" had already t en on its present meaning of "to ta wrongfully, deceitfully."

The derivation of "cheat" suggests o last recourse at tax time. If the extortio ate scavengers at the IRS accuse you cheating, you may plead that you merely paying them back in their o coin, and that, by cheating, you are so much fighting them as joining the Try it—it's no harder than arguing wit guillotine. The worst they can do is co fiscate your capital. Or, put more cru ly, your head ends up in their basket.

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Some policyholders receive 109% increase over original scale as explained below.

For the tenth consecutive year, The Guardian's board of directors has approved an increase in the dividends to be paid on some classes of permanent (cash value) individual life policies. These dividend increases represent a substantial reduction in the cost of life insurance protection for holders of these policies.

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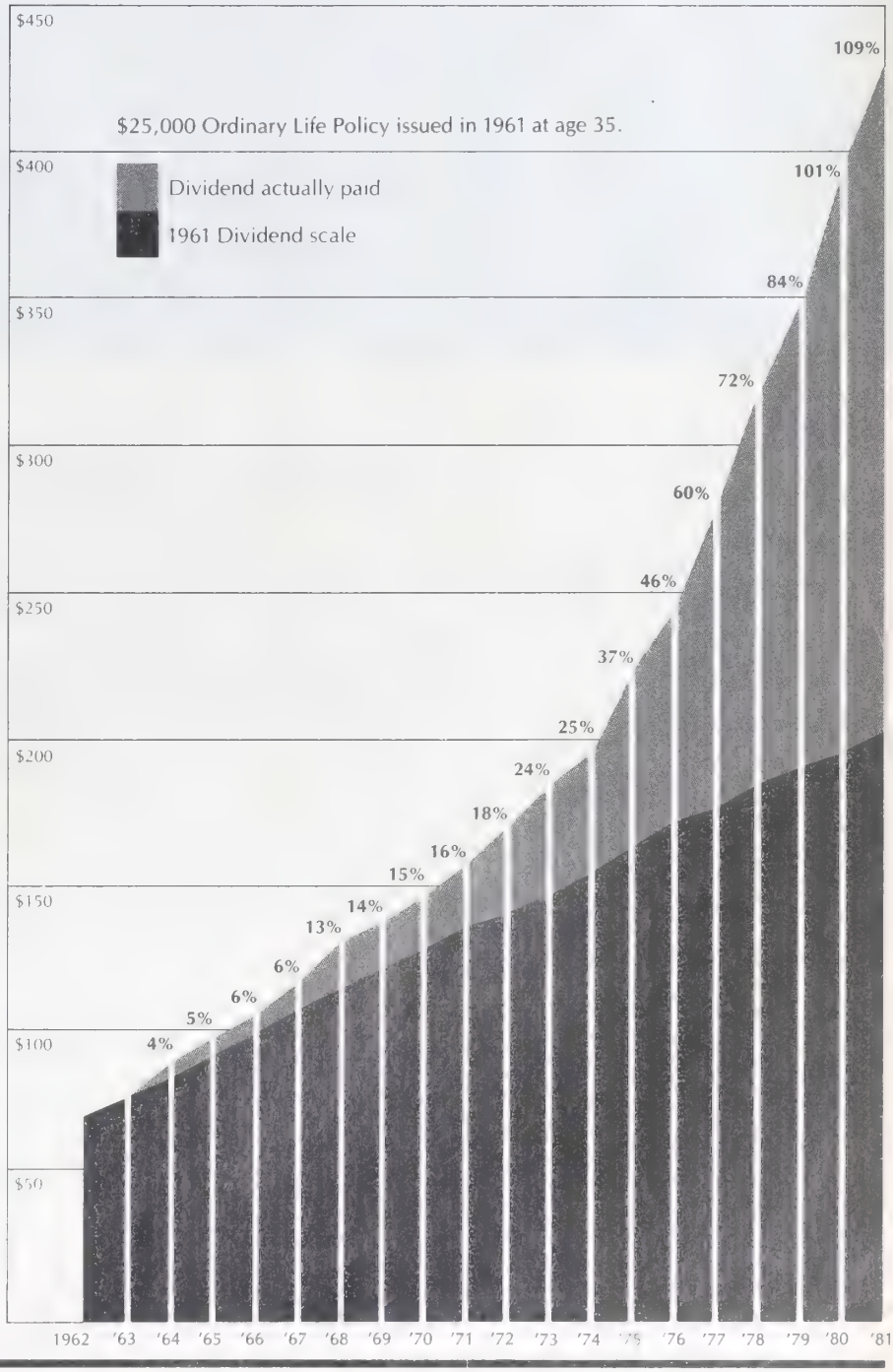

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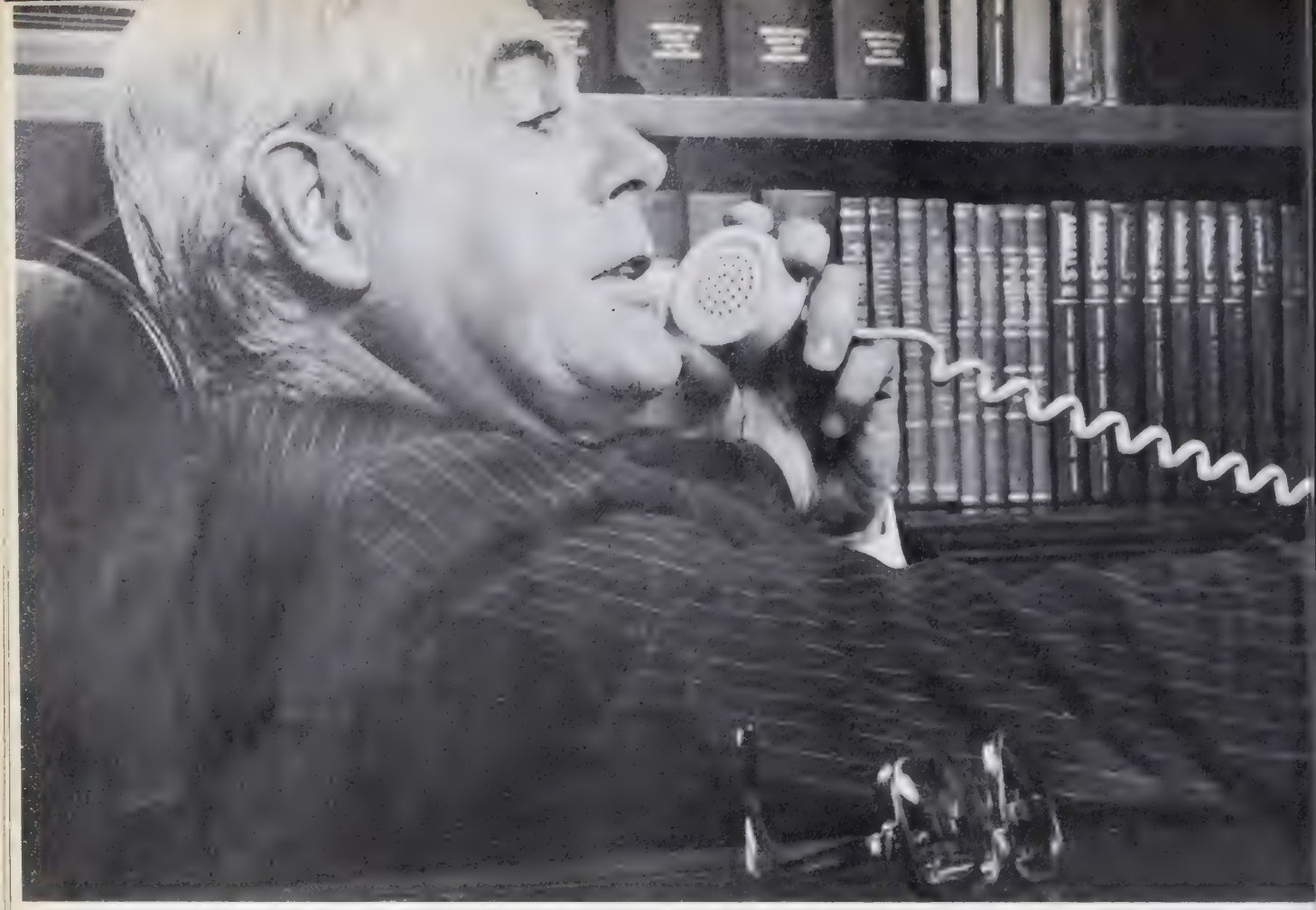

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RCA American Communications

The solution that beats the system

With not-for-profit hospitals collapsing left and right, Uncle Sam's prescriptions have begun to look more like poison. But it's not time to call the coroner in yet—they've found a new doctor. . . .

Paging Dr. Adam Smith

By Richard Greene and Thomas Baker

THE YEAR IS 1990. The tax-exempt bond market is aglow as thousands of hospitals around the country raise funds for expansion. They are safe investments since about 80% of them are run by 25 huge multihospital systems. These health care conglomerates also have their fingers in thousands of nursing homes, daycare centers and medical buildings. They also have major investments in such loosely related entities as hotels, shopping centers and restaurants.

And that's not the whole story. Of these 25 immense, successful conglomerates, 20 are not-for-profit institutions run by groups like the Seventh Day Adventists, Catholic religious orders and the City of New York.

Could it happen? The fact is, nonfederal not-for-profit hospitals, which make up more than 5,000 of the 7,000 U.S. hospitals, have already tasted the free enterprise system and love its flavor. These hospitals, some of which are run by boards of trustees with as much knowledge of hospital finance as the average hardware store manager, are reaching out for sophisticated management techniques that can help them stay afloat. Though many are run by religious groups, the realization has hit that God won't pay the bills.

With the advent of expensive modern technology, such as the much vaunted CAT scanners—which, in effect, take 3-D X rays, and cost $800,000 apiece—there's little hope that the cost of health care is going to be driven down dramatically in the near future. Modern science is quickly discovering more and more exotic treatments for diseases.

What's not so good is that a longer, more useful, less pain-ridden existence for the ordinary citizen is feeding inflation and breaking the financial backs of many families. So the hospitals are paging Dr. Adam Smith.

The most significant lesson they're learning—following the lead of for-profit chains like Humana and Hospital Corp. of America—is the benefit that can come from merging with other hospitals. Right now, according to *Modern Healthcare* magazine, some 14% of all nonprofit, nonfederal hospitals are owned or leased by multihospital systems.

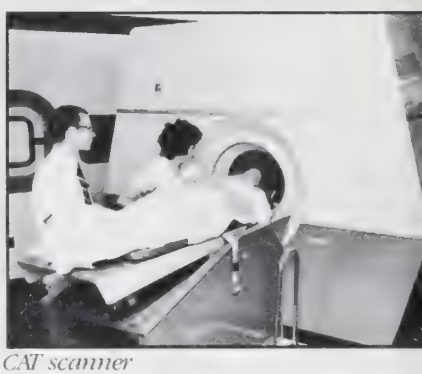
Donald Welch is president of Adventist Health Systems/Sunbelt, a 28-hospital chain that may soon merge with three other Adventist chains to become the second-largest not-for-profit hospital group in the country. Welch explains the significant savings that full-scale mergers can bring about:

- "We have a very extensive cash management system that's saved us hundreds of thousands of dollars in interest costs," he says. "We borrow money from one another, in effect. There are one or two cases where it probably saved hospitals from going under."
- "We can borrow at rates that individual hospitals might find impossible to get. For example, we have a hospital in Ft. Worth called Huguley Hospital, which had to sell a $15 million bond issue. But in Texas there's a 10% interest limit on tax-exempt bonds. Well, with their credit rating, they couldn't sell a tax-exempt at less than 12% or 13%. They were going to have to go to the commercial market where they would have paid 15% or 16%. But when we took over, we were able to use our corporate bond rating and sell out that issue at 10%. It saved something like $750,000 a year in interest."
- "We can get discounts on things like intravenous solutions that can't be beat."
- "When one little hospital has an insurance claim, it can send up its malpractice premiums maybe 25%. But if you spread the risk over a number of hospitals, it's not nearly so painful."

Mergers into multihospital systems can indeed spell the difference between life and death for hospitals. For example,

Operating room at Research Medical Cen Kansas City

Don't blame the doctors for soar hospital costs. Doctors bill patie directly in most cases.



CAT scanner

Booming medical technology bui ever higher costs into running hos tals. Every hospital now wants a C scanner in spite of the $800,000 co

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according to Kidder, Peabody's Arthur J. Henkel, "There were these two hospitals on the east side of Detroit, one of which was in deep trouble. So the other one, operated by the Sisters of Mercy, took over its liabilities. By pooling resources they're planning to cut down the number of beds, staff and administrators dramatically, and they'll bring many of the essential services into the Sisters' own hospital and operate the other one as a satellite."

For chains like the Adventists, the financial savvy is now in-house. It has the time and capital to bring in top-rank hospital managers. But for many fledgling chains beginning to experiment with cash management techniques, money must be spent on expertise. This opportunity hasn't gone unnoticed by firms like Arthur Andersen, Laventhol & Horwath and Ernst & Whinney, all of which have jumped on the bandwagon in search of hefty consulting fees. Also, for brokerage houses like Blyth Eastman Paine Webber and Kidder, Peabody, the area of hospital bond issues is a fertile one. At Kidder, hospital underwritings have more than doubled—to more than $1 billion—in the past five years.

The cost pressures on not-for-profit hospitals are many and vicious: a decrease in funds from philanthropy; tax laws that penalize them at every turn; union pressures; inequities in Medicare and Medicaid reimbursement systems and, of course, inflation.

It has been a surprise to no one that the big city hospitals have been falling apart at a rapid pace. In the last several years there have been hospital closings in New York, Chicago, Detroit, Philadelphia and a number of other major cities. In New York, nine major hospitals went on strike in mid-March *(see box)*. Unfortunately, free market cures alone are hardly able to solve the underlying problems of metropolitan hospitals. Political considerations often take precedence over economics.

On the other hand, the smaller regional hospitals haven't been so stifled. Not that their problems aren't immense. Over 400 of the 2,700 hospitals in the country with under 100 beds have closed since 1969. More are on the brink. Says Jeff Simmons of Laventhol & Horwath, "Over the next several years the likelihood of small community hospitals surviving as individual entities is very low."

Many of these hospitals were built shortly after World War II, under the Hill-Burton Act, a federal program designed to spread proper medical care throughout the country. Unfortunately, at the time, the federal planners involved in Hill-Burton paid little attention to another program coming out of Washington, D.C.—the national highway plan. Even as the government poured millions into new hospitals in states like Iowa, Montana and Minnesota, engineers were pouring concrete into roads for people to gain access to more prestigious big-city hospitals already standing.

Nonetheless, most of these small hospitals were able to stay in the black—after a fashion. Deficits were made up by philanthropists and many services were donated. Since they were just squeaking by, little capital spending was done and the plant slowly disintegrated, but basically they were pulling through.

And then in 1965-66 came Medicare and Medicaid, which represented the beginning of the end. The biggest single problem today in hospitals—both large and small—is the system of reimbursement used by these programs. They conspire against a hospital standing on its own feet. For example, let's say a hospital has 60% Medicare and Medicaid patients—a typical percentage for a big-city hospital. You'd think that 60% of the hospital's costs would be reimbursed by these two programs. Not so.

For one thing, these reimbursement plans don't take into account any need on the part of hospitals to replace old plant at current costs. They reimburse the hospitals based on straight-line, historical cost depreciation. So, when the time comes to replace a wing, the money isn't there and the hospital is forced to borrow.

Even when a hospital has the good fortune to make money on some of its operations—like blood-testing clinics—it gets penalized for that too. Prior to reimbursing the hospitals for their *costs*, the Medicare accountants can subtract from the reimbursement any money the clinic made on non-Medicare business.

The result is a system that reimburses hospitals for as little as 80% of their true costs for Medicare patients, and even less under Medicaid. Obviously the problem is most acute for the big urban hospitals with the highest percentage of such patients.

Perhaps the only positive side effect of this debilitating system has been that it has forced many fiscally lazy hospital managers to wake up. "I think the one thing the Medicare program did was accelerate the sophistication of financial managers of hospitals," says P. Douglas Powell, national director of health-care services for Ernst & Whinney.

These financial managers realized that when you lose money on every patient, you can't make it up on volume. They set about finding a way to sequester their profits from the government, so that they would not be used as an offset against Medicare/Medicaid reimbursements. This is now being done frequently through corporate restructurings in which a number of activities are spun off into separate companies managed by a holding company—sort of like a bank holding company.

Emergency room entrance

They're nearly always moneyl since they must be open 24 ho day and be equipped to handl manner of medical problems.

Urinalysis testing facility

Sophisticated lab facilities can steady profit center for hospital Medicare doesn't take the money.

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ıat, of course, suddenly makes it :hwhile to set up other money-mak- ventures. And it makes it easier to ıge for a merger with another hospi- which can also be taken in under the ›rella of a parent company. Says Sher- L. Memel of Memel, Jacobs, Pierno ersh, an attorney who specializes in ı deals, "A few years ago, nobody was ıg restructurings. Now it's like a 'vball rolling downhill."

esearch Health Services in Kansas City provides a good example. ıid accusations of becoming an em- builder and "big brother," this insti- ɔn has succeeded in building a suc- ful corporate web of interconnected itutions. Although its 561-bed hospi- Research Medical Center, is still the :erpiece of the organization, the com- y also runs a chain of ventures. These ude: Clinishare, which provides ical services to other hospitals, nurs- homes and businesses; Health Ser- s Management, a for-profit company provides management services to :r health care providers; two for-prof- ɔctors' buildings in Kansas City; and ıopping center across the street from hospital that was purchased primar- for future use of the income-produc- land. In addition, it's planning a lti-use downtown health-care center eduled for completion in 1982.

lthough Kansas City is one of the most successful cases of restructuring, it is far from atypical. The technique works for smaller hospitals as well. Crittenden Memorial Hospital in West Memphis, Ark., for example, established a tax-free foundation to act as a holding company. Adds Richard F. Scruggs, Crittenden's CEO, "Just last year, the foundation submitted a proposal to build apartments for the elderly—a federally funded project."

Fears by hospitals of losing identity and control have held off some seemingly likely mergers. The boards of many small hospitals around the country are made up of people who have a great deal of community spirit and pride. They don't want to see *their* hospital lose facilities to *that other hospital* in the next town.

But they are often forced to swallow that unpleasant medicine when they go to the bond market for a little working capital. Said Arthur Henkel of Kidder, Peabody, "Last year, 72% of multi-hospitals got bond ratings of A+ or better, while only 18% of individual hospitals did." That's particularly significant when you contemplate the size of the market: Last year hospitals financed some $3.5 billion in growth through bonds. This year the number should be at least that high.

A humane health system is beyond price. But that's no reason for being needlessly extravagant or wasteful about running one. ■

Nuclear-medicine van

Some equipment, like this gamma camera, is too expensive for every hospital to own. Solution: Put it in a van and circulate it among a number of hospitals in the Kansas City area.

Only in New York?

The fate of municipal hospitals nationwide is inevitably intertwined with the whole litany of urban problems: the flight of the middle class, heavy unionization, fierce political rivalries. But while most American cities have 1 or 2 municipal hospitals, New York—always the extreme—has 16, making it the largest not-for-profit hospital system in the country.

It's in dismal shape: understaffed, overcrowded and undercapitalized. The only hope is some clear planning. But that's a distant hope, indeed. Says Dr. Lowell Bellin, professor of public health at Columbia University and a former city health commissioner: "It's a wretched situation. Never before have New York municipal hospitals been so politicized."

Striking doctors at Harlem Hospital

As an example, Mayor Edward Koch's 1979 proposal to close four municipal hospitals was angrily rejected by the community and by the hospital employees. The Mayor argued that this was the best way to eliminate a citywide excess of beds. In the end only one hospital was closed. The latest episode: Last month 2,000 physicians-in-training struck seven municipal and two voluntary hospitals. Residents and interns protested what they deemed a severe shortage of medical personnel and life-saving equipment. And that was not the first strike by doctors in New York City—they were out for one day in 1979, following a nine-day strike in October 1976.

The future for urban health care looked brighter in the mid-Sixties, when it seemed that Medicaid and Medicare could solve everything. "But the lack of a federal mechanism to pay for the unemployed and the underinsured, to say nothing of the health needs of the million-odd undocumented aliens, have made the reimbursement system impossible," says Dr. Samuel Wolfe, a professor at Columbia's School of Public Health.

In 1970 the semi-autonomous Health and Hospitals Corp. was created to solve these problems, and has failed miserably. The city has lost about 5,000 hospital beds in the last 11 years. And five HHC chiefs have come and gone. The last, Dr. Abraham Kauvar of Denver, lasted a mere five months and left with a shrug: "This is New York, and I'm just a small-town boy," he said.

On one level, there still seems to be hope for the Health and Hospitals Corp. In fiscal 1982 HHC's need for a city subsidy will fall by 25%. But few regard this as a sign of financial strength—or political independence. Of the 16 HHC board members, 10 are still appointed by either the Mayor or the City Council. It seems unlikely that the HHC—or the hospitals it serves—could ever transcend politics. Its history suggests nothing else. After all, one of the first recorded acts of the Health and Hospitals Corp. was a resolution condemning American involvement in the war in Vietnam.—Barbara Rudolph

How to read an annual repor

By Jane Bryant Quinn

International Paper asked Jane Bryant Quinn, business commentator for the CBS-TV Morning News, columnist for Newsweek, and author of Everyone's Money Book, to tell how anyone can understand and profit from a company's annual report.

To some business people I know, curling up with a good annual report is almost more exciting than getting lost in John le Carré's latest spy thriller.

But to you it might be another story. "Who needs that?" I can hear you ask. *You* do—if you're going to gamble any of your future *working* for a company, *investing* in it, or *selling* to it.

Why should you bother?

Say you've got a job interview at Galactic Industries. Well, what does the company do? Does its future look good? Or will the next recession leave your part of the business on the beach?

Or say you're thinking of investing your own hard-earned money in its stock. Sales are up. But are its profits getting better or worse?

Or say you're going to supply it with a lot of parts. Should you extend Galactic plenty of credit or keep it on a short leash?

How to get one

You'll find answers in its annual report. Where do you find *that?* Your library should have the annual reports of nearby companies plus leading national ones. It also has listings of companies' financial officers and their addresses so you can write for annual reports.

So now Galactic Industries' latest annual report is sitting in front of you ready to be cracked. How do you crack it?

Where do we start? *Not* at the front. At the *back!* We don't want to be surprised at the end of *this* story.

Start at the back

First, turn back to the report of the *certified public accountant.* This third-party auditor will tell you right off the bat if Galactic's report conforms with "generally accepted accounting principles."

Watch out for the words "subject to." They mean the financial report is clean *only* if you take the company's word about a particular piece of business, and the accountant isn't sure you should. Doubts like this are usually settled behind closed doors. When a "subject to" makes it into the annual report, it could mean trouble.

What else should you know before you check the numbers?

Stay in the back of the book and go to the *footnotes.* Yep! The whole profits story is sometimes in the footnotes.

Are earnings down? If it's only because of a change in accounting, maybe that's good! The company owes less tax and has more money in its pocket. Are earnings up Maybe that's bad. They may b because of a special windfall th won't happen again next year. The footnotes know.

For what happened and wh

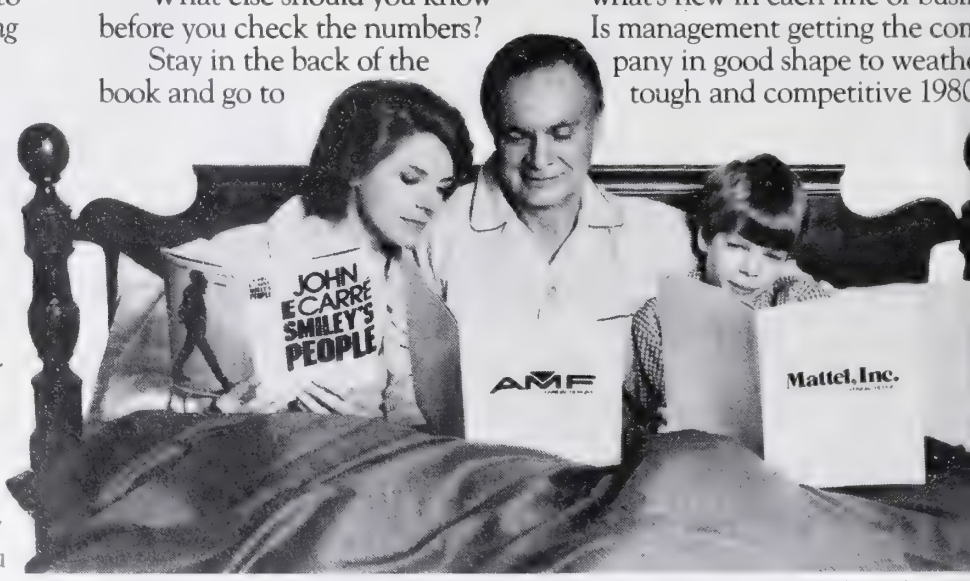
Now turn to the *letter from the chairman.* Usually addressed "t stockholders," it's up front, and *should* be in more ways than on The chairman's tone reflects th personality, the well-being of h company.

In his letter he should tell how his company fared this yea But more important, he should you *why.* Keep an eye out for se tences that start with "Except f and "Despite the..." They're cl to problems.

Insights into the future

On the positive side, a chairma letter should give you insights into the company's future and i *stance* on economic or political trends that may affect it.

While you're up front, look what's new in each line of busi Is management getting the com pany in good shape to weath tough and competitive 1980



"Reading an annual report can be (almost) as exciting as a spy thriller—if you know how to find the clues. I'll show you how to find the most important ones here."

Now—and no sooner—shou you dig into the numbers!

One source is the *balance sh* It is a snapshot of how the com stands at a single point in time the left are *assets* – everything t company owns. Things that ca

y be turned into cash are
t assets. On the right are
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Current liabilities are the debts
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from one annual (and quar-
report to another. If working
l shrinks, it could mean trou-
One possibility: the company
not be able to keep dividends
ng rapidly.

Look for growth here

holders' equity is the difference
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Another important
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that's leveling out.
re on that later.)
The second basic source of
bers is the *income statement.* It
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Most people look at one figure
It's in the income statement at
bottom: *net earnings per share.*
ch out. It can fool you.
ctic's management could boost
ings by selling off a plant. Or
utting the budget for research
advertising. (See the foot-
s!) So don't be smug about net
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they happened—and how they
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Check net sales first

number you *should* look at first
e income statement is *net sales.*
yourself: Are sales going *up at a*
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ble. Also ask: Have sales gone
aster than inflation? If not, the
pany's *real* sales may be behind.
d ask yourself once more: Have
s gone down because the com-
y is selling off a losing business?

If so, profits may be soaring.

(I never promised you that figuring out an annual report was going to be easy!)

Get out your calculator

Another important thing to study today is the company's debt. Get out your pocket calculator, and turn to the balance sheet. Divide long-term liabilities by stockholders' equity. That's the *debt-to-equity ratio.*

A high ratio means that the company borrows a lot of money to spark its growth. That's okay—*if* sales grow, too, and *if* there's enough cash on hand to meet the payments. A company doing well on borrowed money can earn big profits for its stockholders. But if sales fall, watch out. The whole enterprise may slowly sink. Some companies can handle high ratios, others can't.

"For inside information, an annual report is second only to meeting with the brass behind closed doors. Come on in!"

You have to compare

That brings up the most important thing of all: *One* annual report, *one* chairman's letter, *one* ratio won't tell you much. You have to compare. Is the company's debt-to-equity ratio better or worse than it used to be? Better or worse than the industry norms? Better or worse, after this recession, than it was after the last recession? In company-watching, *comparisons are all.* They tell you if management is staying on top of things.

Financial analysts work out many other ratios to tell them how the company is doing. You can learn more about them from books on the subject. Ask your librarian.

But one thing you will *never* learn from an annual report is how much to pay for a company's stock. Galactic may be running well. But if investors expected it to run better, the stock might fall. Or, Galactic could be slumping badly. But if investors see a better day tomorrow, the stock could rise.

Two important suggestions

Those are some basics for weighing a company's health from its annual report. But if you want to know *all* you can about a company, you need to do a little more homework. First, see what the business press has been saying about it over recent years. Again, ask your librarian.

Finally, you should keep up with what's going on in business, economics and politics here and around the world. All can—and will—affect you and the companies you're interested in.

Each year, companies give you more and more information in their annual reports. Profiting from that information is up to you. I hope you profit from *mine.*

Jane Bryant Quinn

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We believe in the power of the printed word.

Here's a mutual fund concept that might provoke hard thinking in big companies about ways to distribute earnings.

Tax-free dividends

By William Baldwin

RICHARD J. SLUGGETT had an idea in 1970 that was a little ahead of its time. Then a 35-year-old attorney in Palm Beach, Fla., Sluggett hit upon a way to make dividends all but tax-free. He set up a mutual fund called American Birthright Trust and arranged to have it taxed like a corporation, which qualified it for the deduction that exempts 85% of all dividends to a corporate recipient.

Sluggett figured that if his fund's operating expenses equaled 15% or more of its dividend income, it would pay no taxes. As long as the fund reinvested its income and never paid dividends, its shareholders wouldn't have to worry about taxes either, unless, and until, they sold their shares.

Investors were skeptical, however. Most mutual funds are tax exempt because they pay out all their earnings to shareholders. Sluggett's American Birthright was different, and slow to catch on. The mutual fund industry didn't hurry to bring out copycat products but sat on the sidelines while Sluggett fought, and won, various battles with the Internal Revenue Service.

However, bracket creep and the U.S. public's increasing awareness of tax consequences worked in Sluggett's favor. In 1978 Sluggett brought out a sister fund, Tax-Managed Fund for Utility Shares. Later that year Colonial Management Associates, an old-line Boston firm, offered a fund patterned on American Birthright. And several smaller imitators have popped up recently. "Everybody said it wouldn't work," says John J. Collins, comptroller of American Birthright Trust Management, the fund's advisory firm. "It worked. Finally we're starting to get a following." American Birthright, which had $36 million in net sales in its fiscal year 1980, now has assets of $123 million. Tax-Managed Fund for Utility Shares has $153 million in assets.

Sluggett's decade-old idea seems a winner. And he is not going unrewarded for his pioneering. Financial statements for ABT Management indicate that this year he could easily net $3 million pretax from his operation. The Securities & Exchange Commission last fall brought suit against him, charging that his 1% annual management fee was excessive since he was subcontracting almost all the work of picking stocks to Arnold Ganz Associates for 0.15%. Sluggett settled the case by making one-time rebates of $465,000 to the funds.

How good are such funds as investments? As with any investment featuring a tax angle, there's a tendency for transaction costs to eat up the tax savings. All the tax-managed funds have sales commissions of up to 8.5%, most to brokers for the hard-sell of an unorthodox product.

There's also a risk of tax strategy overriding good judgment. "Tax management is the frosting on the cak have to make sure you want the says funds analyst A. Michael Consider Tax-Managed Fund for Shares, where converting dividen capital gains is especially appeal cause of utilities' high yields. Sta 1978—a lousy year to be buyin ties—the fund's total annual retu averaged minus 1.4%.

American Birthright Trust, b trast, is heavily into energy stoc Global Marine and Halliburton. T the end of 1980 its performance av just under 12% a year, which tra into 9.5% after taxes and comm for a 50%-tax-bracket investor wh out after a decade. A convention load mutual fund making the sa turn, half from dividends and h long-term capital gains, would 7.8% after tax if the gains were pa every year.

To make themselves exempt fro come taxes the Birthright-style must use not only the 85% divi deduction but various devices to reporting capital gains. One trick buy preferred stocks on margin an immediately after a dividend pay another involves selling call option the basic strategy, exp Donald L. Colvin, pres of the Tax Deferred C Corp., is to take losses and let the gains run. T common sense, says C yet many a convent fund manager takes gain ery year so there can distribution to the ho even if the portfolio i tered with unrealized l "They force dividends o people. The poor guy h choice but to report it o tax return."

For that matter, would be no need for the managed funds and steep overhead costs if c rations themselves ad the tax strategy of never ing dividends. There i reason in principle stockholders who need current in could not sell a few shares each ye effect taking a dividend in the form capital gain. Corporations with cash than they can effectively reinv the business could make irregular r chases of their own stock without verse tax consequences—Teledyne Crown Cork & Seal have been doing for years. But habits die slowly. corporations are still paying dividen a tax cost that Harvard economists tin Feldstein and Jerry Green estim over $10 billion a year. It will take more funds like American Birthrig fore corporations wake up. ■

No payouts, no taxes

These five mutual funds claim the 85% corporate dividends deduction, and they never make distributions to their shareholders. Result: Growth compounds tax-free.

Fund	Assets (mil)	Date started	Annual expenses per $100
American Birthright Trust Palm Beach, Fla.	$123.5	June 1970	$1.32
Colonial Tax-Managed Trust Boston, Mass.	90.0	November 1978	1.01
Foster, Hickman & Zaenglein Tax-Managed Trust Rochester, N.Y.	1.0	December 1980*	6.83
Tax Deferred Capital Corp. Palm Beach, Fla.	0.5	February 1981	1.50
Tax-Managed Fund for Utility Shares Palm Beach, Fla.	153.1	April 1978	1.26

*Previously run as conventional mutual fund

The inside view of employee communication

Front desk activity at the Marriott Essex House in New York City.

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Alexander & Alexander

From the client's point of view.

David Brown brought you Patton, The Sting *and* Jaws. *But when he's not reading scripts, he's likely to be studying stock tables.*

A boffo, socko portfolio

Profiles

By Steven Flax

"I CONSIDER MYSELF a professional investor," says movie mogul David Brown, peering over a desk covered with film scripts, literary properties and a Sutro & Co. stock guide. "If it were against the law to make movies, I could happily spend the same time and energy on my personal financial interests."

Brown, of course, has scored big with such box office hits as *The Sound of Music*, *Patton* and *Jaws*. In the nine years since he and partner Richard Zanuck resigned lucrative contracts at Warner Brothers, their Zanuck/Brown Co. has earned well over $60 million pretax. This makes the two-man partnership one of the most successful independent production companies in the entertainment business.

Still, the 64-year-old Brown, whose four-floor Manhattan penthouse overlooks Central Park, claims to have done much better as an investor. Unlike many celebrities, Brown manages his own money—and it is easy to see why: Last year, for example, his $13 million common stock portfolio showed a 57% return. With this and other holdings in bonds, oil and gas, real estate and cattle, Brown has taken his share of Zanuck/Brown's earnings and grown them over the years into a net worth of almost $40 million. That is a conservative estimate, since Brown carries all his real estate at cost.

Brown got into the stock market in a big way during the 1962 Cuban missile crisis. He was in Pittsburgh with his wife, Helen Gurley Brown, who was promoting her bestseller, *Sex and the Single Girl*. "While we were on the air, word came from the newsroom that Russia was mobilizing," says Brown, a gracious man whose charm extends to the tips of his guardsman's moustache. "I immediately went to the local branch of my broker. I bought—on the theory that if we were going to be extinguished by missiles, everything would go anyway. And if we weren't, probably there would be a nice profit. I was right."

That was all the encouragement someone as bullish as Brown needed. "I like the commitment and the action of buying," he says, his eyes twinkling as he lights a cigar. "But I don't think you can throw investments into a box and forget them, because you can't throw the world into a box and forget about it. One development, maybe thousands of miles away, will affect the entire psychology of the marketplace. You have to watch its fever chart on a daily basis."

Investing also appeals to Brown's curiosity. "It's so satisfying that it's almost recreational," says Brown. "It gives me insights into many activities, companies, people and products. I've always been a generalist, and investing gives me the occasion to learn about a company that makes, say, left-handed monkey wrenches. I read their proxy statements, their annual reports, the financial press. All of it." In fact, Brown devotes over 20 hours a week to managing his money—devouring everything from the *Cattleman* magazine to FORBES.

Since the missile crisis Brown has developed his shrewd opportunism into a refined moneymaking strategy. "One-third of my capital is in what I call 'bomb-shelter investments.' These would survive anything except the collapse of the capitalist system or collision with an extraterrestrial body."

For such protection, Brown buys mostly high-quality, tax-exempt municipal bonds. "I am a contrarian about bonds," he says. "I've continued to buy them as they've discounted because I look at tax-exempt income as an end in itself, and I don't torture myself about the declining purchasing power at maturity."

Another third of Brown's portfol what he calls "aggressively cons tive." "IBM is a good example. It c be affected by Japanese competitio technology, but it isn't likely to go way of the old Penn Central," Brown. "It's not as conservative AT&T; it could grow quite signific ly—but there's no threat of extinctio

Brown likes to diversify within se ed industries. His 60-or-so holdings concentrated in computer techno and energy, asset plays such as p companies and, lately, bank stocks Citicorp. Look for the companies the sturdiest capitalization in those tors, and there you'll find Brown.

He also believes in having some st that are out of favor. The airlines, Am in particular, are an example. "H so enamored with them," says his "that the worse they do, the more buys. It's like having one child—li Gwendolyn—who does poorly. Th the one who becomes your special pe

Brown, of course, admits that airli are risky investments. "But I don't beli there will be any obsolescence," he plains. "Flying is going to be the prim mode of long-distance travel for our time and probably our children's lifeti What's more, the slightest increase in economy plus the higher fares they're r getting will benefit the industry sig icantly. My theory is that if the airli survive financially, they could doubl value within 18 months with any decl in fuel costs, even 2%. And Pan Am is best-known name in aviation."

If he's willing to go for airlines, w warns Brown that an investment is risky to be "aggressively conservativ "A danger signal for me is a new iss too much hype, stock splits and com nies with names that are calculated bring in money," he says, "whether field is hydroponics or the new scient genetics." Brown, who grew up weal on Long Island, has a valise full of wo less, pre-Depression securities, so signed by Lee De Forest, the inventor the vacuum tube, whose radio comp failed because it was undercapitaliz "You always have another opportun usually at less," he explains. "I d want to get in on the ground floor."

Lately, Brown has bought into B Beranek and Newman, Tandem C puters, Datapoint and M/A-Com. " not troubled by the diminishing back of some of the high-technology com nies," he says. "My inclination is to more because there's no way that t age, perhaps the next two decades, not be the age of computer technolog

The final third of Brown's portfoli speculative. "This includes oil and g cattle and real estate," he says. "Not sort that might go up in smoke, things with the capacity to exceed your other investments in growth."

d Brown in the screening room at Twentieth Century-Fox

as an economic illiterate. A guy who was always borrowing, paying back, spending the rent on champagne tastes."

mple, Brown's real estate, which in-
des hundreds of acres of land in Put-
n County, N.Y., has appreciated
%. One of his five oil properties has
n a big winner too—increasing his
,000 investment to seven figures.
y the cattle venture has a cloud hang-
over it. Brown's herds are maturing
en cattle prices are showing signs of
ening.

Until his late 30s, Brown, who was by
n a highly paid executive at Twentieth
ntury-Fox, was far better at spending
n investing. "I was an economic illiter-
" he claims, "a guy who was always
rowing, paying back, having the
rts, spending the rent on champagne
es." After his third marriage, however,
wn turned his mind to household fi-
nce, and managing money eventually
ame his third successful career.

rown majored in journalism at Stan-
d. In World War II, he was assigned
the psychological warfare depart-
nt. "Something," says partner Rich-
Zanuck, "that has helped in the
vie business, where you're dealing
h crackpots most of the time."
er the war Brown became something
a child prodigy in publishing. He was
tor of *Liberty Magazine* at 31 and soon
became managing editor of *Cosmopolitan*.

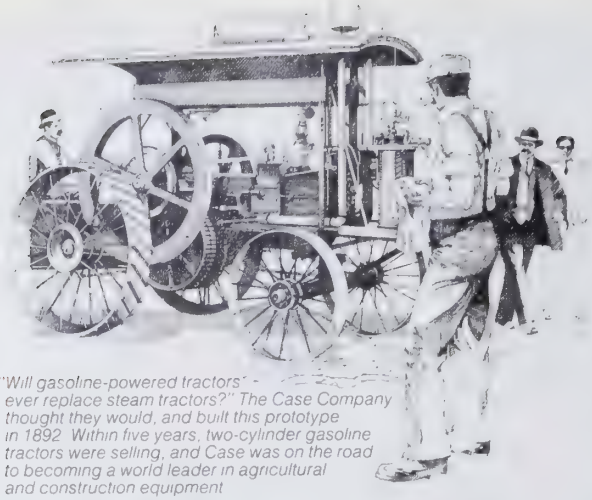
In 1952 Darryl F. Zanuck asked Brown to head the story department at Twentieth Century-Fox. In those days studios produced 30-odd films a year, all made entirely in house, and Zanuck needed someone who could juggle a variety of subjects and cope with constant deadlines. Brown had never dreamed of a career in movies, and he had to cram for his interview with Zanuck by seeing nothing but Fox films.

Shortly after Brown got there, Hollywood started reeling from the onslaught of television, but soon his studio's efforts were focused on Cinemascope—the industry's answer to the tiny TV screens of the day. When Brown asked his boss what sort of stories he wanted for the new medium, he was told "they shouldn't be too deep, David, but they should be very wide." For years, no movie lost money with that formula, and Brown rose to become executive vice president and a director at Fox.

In 1970 he and Richard Zanuck quarrelled with the elder Zanuck over management policy and were fired. Then, after a short stint at Warner Brothers, Brown and Zanuck decided to form their own company. "Had we not left Fox involuntarily," says Brown, "we would never have chosen to become entrepreneurs. But we began to see that executives are people at the mercy of other people pacing up and down in a room saying, 'What are we going to do about Brown?' "

For a while the two worked out of Zanuck's house and Brown's hotel room, making appointments from phone booths, toting manuscripts to the post office and cooling their heels in studio waiting rooms. Secretaries would meet them in Beverly Hills and take dictation in the back seat of a car. Then an agent slapped a package on the trunk of their mobile office. It was the script of a movie to be called *The Sting*. The rest, as they say, is history. Today Zanuck and Brown are back producing films with Twentieth Century-Fox, the company that ousted them having paid an estimated several million to get them back.

With all the success, moreover, Brown shows no sign of curbing his optimism. "The only alternative is to be in a foxhole somewhere," he concludes. "I prefer to go down with the country, the economy and the capitalist system. Until then, I'll continue to bet broadly on the future of mankind." ■



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tor-in-chief Malcolm Forbes was interviewed recently by author-rnalist Susan Mazur. Their discussion, published in Omni *maga-e, ranged from presidential politics and national defense policy to allocation of mineral rights on Jupiter. (The latter, Forbes says, is our most pressing problem today.) The interview follows.*

The future of workaday capitalism

I: Would you say it's time to rethink lection process? Are the good people ng through?

ES: The fact that somebody ends up fice who we all think is a big mis- that seemingly the best man didn't —well, who's to know? Some of the people have been disappointments, some of the most unlikely have been essful. Harry Truman, a failed haber- er, for heaven's sake, turned out to damned effective President. And ght Eisenhower was good because he ed a lot of golf and left the presidency is lieutenants and staff at a time n doing things wasn't in major mea- a first priority. You know presidents are overactive can be a pain in the , too.

here are other times when strong ership, such as that provided by Win- Churchill during the Second World is right. A Franklin Roosevelt, after lly reversing what he got elected on ng the Depression, is seen in retro- t to have really saved the free-enter- system, though he was damned by ple like my father and everyone else usiness as anathema.

who's great and who isn't? The ning mediocrities who get elected turn out to be great, and some of the who just seem ideal for office can out to be duds.

NI: How do you view the future with ald Reagan as President?

BES: The things Mr. Reagan's been ng for a dozen years are currently in ion: He's stressing, mainly, that we d to build ourselves up militarily. s right, too, that taxation can be un- ductive to the point where it isn't thwhile to work overtime because the diminishing return. He's con- ned with bureaucracy. He knows he ht to call on the business communi- or advice. He realizes his own limi- ons. And I think that he will appoint

MSF's photo by Omni's *Tony Guccione*

a cabinet of people with capability.

OMNI: On another one of your record-making adventures last summer, motorcycling across Russia, you presented Moscow's Mayor Promyslov with one of your "capitalist tool" neckties in return for his gift to you of a key to the city of Moscow. Would you say the future calls for more such personal efforts to ensure détente with the Russians?

FORBES: Well, the mayor chuckled and then abruptly ceased chuckling. But it was good-natured, and I gave him a scarf that has the same slogan for him to give to his wife. It was a happy exchange.

I don't think we have a problem on a people-to-people basis with the Soviet Union. All the Russians I came across were friendly. People-to-people contact is good. And it's been universally thus in almost every war. Soldiers, for instance, could fraternize between attempts to kill one another. There's not even a thaw in such contacts as mine with Mayor Promyslov.

The good-fellow relationships have been tried on the presidential level as well. You remember Roosevelt initially said, "Oh, I can handle good old Uncle Joe." This was near the end of the Second World War and just before the beginning of the Cold War. What exists now, though, is a different matter. The Soviet Union is a superpower with raw military might, pursuing its own interests.

Communism as a theory simply has not been accepted in the world. It's regarded as being both inefficient and enslaving. The Russians are surrounded, in a sense, by a hostile world. It's true China's a Communist nation. Yugoslavia's Communist. But they don't get along with the U.S.S.R.

What exists between the U.S.S.R. and the United States is a conflict of two dedicated beliefs in opposite ways of life and of governing populations. Ours is more effective in the sense that people would rather get out of Russia, while nobody is trying to flee *into* Russia. This makes the Russians even more defensive and more offensive. That's why all their resources, in a major measure anyway, are devoted to military strength. That is what makes Russia matter. It is not the power of its theory of government, which has lost its cutting edge in practice.

Motivation has come there in garden plots. The government gives people little garden plots in Moscow, and that's where 80% of their vegetables come from, not from the communes. The motivation of free enterprise is something Russia is trending to because it's the way to get results fastest. The Communist system is eroding.

OMNI: The Pentagon offered $200 million this past year in research and development money, a 70% increase in spending in three years, to schools such as MIT, Cornell, Stanford and Berkeley, for projects "unrelated directly to weapons,"

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but very much related to American militarism. Other federal agencies' offers have hardly matched inflation. There are complaints that funds have been siphoned from environmental, health and social sciences. It is argued that what we need more than new gadgetry is fewer physicists and engineers at the core of our Defense Department, more tacticians and a lot of honest-to-goodness soldiers. Have we overlooked the importance of the sciences in appropriating these funds for the military?

FORBES: No. I agree that we need more soldiers and more tacticians. We need much more of the straightforward stuff. A gun in the hand is worth any number being tested.

That's also our problem with tanks. The U.S.S.R. has umpteen thousands of them along its borders. We have a better tank, theoretically, that's been undergoing tests and development for the past ten years. Only recently did they finally decide it needed a filter, that there was dust on the battlefield, and that to keep the dust from fouling the engine, we needed a filter.

> "We have so much technology, and we brag so much about our technological superiority, but it's always in the laboratory. It's always being tested. It's not in the hands of troops, of whom we don't have enough. So $200 million on this research is important."

We have so much technology, and we brag so much about our technological superiority, but it's always in the laboratory. It's always being tested. It's not in the hands of troops, of whom we don't have enough. So $200 million spent on this type of research, the Defense Department thinks, is very important for us. It is not a misappropriation. The misappropriation is the lack of greater appropriation.

What we need to do, I think, is to put a 50-cent-a-gallon tax on gasoline and wrap it around the flag. If some country seizes Americans as hostages and we decide to rescue them, we'll have the capability to do it.

We simply have to realize that there is a cost to our freedom, to our standard of life and to the umbrel offer the rest of the free world. that responsibility to the freedo peoples everywhere, we don't ha preach. We don't have to upend governments.

We've got to have weapons ir hands of our troops, not in the labo ries. So the $200 million isn't wrongly allocated. What's wrong is isn't a few billion more being spent

OMNI: Does the military budget ha take priority over such other progra research and development of the ronmental, health and social scienc

FORBES: We've made enormous strid those areas and have spent billions d so. That's why a car now costs $2 more than it did five years ago. N tenths of the expense has been in cl ing up pollution and in extending mileage gasoline gives us. Makir chimney not smoke. It all ends up ir price of the soap we buy. It enables live longer in the environs of what that smoking chimney, thanks to environmentalist movement. So have spent billions.

But we cannot get back our esser military muscle at no cost. Right r with a 50-cent tax on a gallon of gasol we'll be able to pay for a strong Ame We will cut the amount of gas we'll r to import, and we'll loosen our being hostage to OPEC. Then in a few y we'll have synthetic fuels.

OMNI: Do you think the breakup of American family and old-fashioned rality has had a causal influence on dissipation of American suprem overseas?

FORBES: I don't think so. In the first pl I don't agree that the American fam has broken up. Just because people d always get married and because s just live together, I don't see that breakdown in morality. Nor do I th the proliferation of pornography is ping the American will and has chan our basic way of life. It's just brougl lot of hypocrisy out from under the Perhaps it's too blatant. But people those magazines and books by the lions. They want them. What's the deal if they're adults?

I don't agree with the profligate disp of pornography, with it being pushe your face. But the point is that whe comes to young people living toget before they get married—practicing, might say—I can't agree that this been a disaster.

Instead of having so many cl cases, people are just letting it all h out to a greater degree. I don't th that's bad or that it's made us a wea country. I think we are morally hea ier in many respects than we were preceding decades.

OMNI: What's the most critical probl

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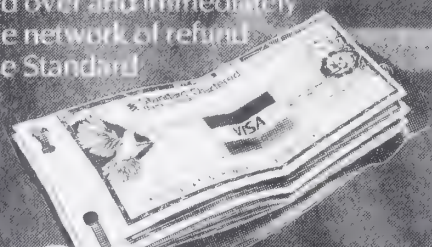

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facing the world today?

FORBES: War. Next I'd say we've created an economy with a degree of overly materialistic expectation, especially in America. We've got to the point where we no longer measure the quality of life by the number of bathtubs in the country. Now, thanks to a greater degree of education and so forth, everyone feels he has a right to things that used to be way-out rewards—color TV, a van, a motorcycle.

Well, there's going to be disappointment in this. And maybe this kind of indulgence isn't even desirable. I'm not generalizing, because I can afford all those things and have been lucky to have been born with money. It's just that wealth is relative. I've also got to remind myself continually that there are some things you can like but just can't have.

OMNI: Can we replace the present technocracy with democracy, where people matter? Where people do for themselves? Is the phasing out of bureaucracy possible?

FORBES: I think technology has provided more answers than problems. But the evil in bureaucracy is that in working for the federal government or the state, a person is almost unfirable under Civil Service. You have no boss to whom you're accountable. You can be sloppy. You can avoid decisions. You couldn't care less if the public's waiting at the window at five o'clock.

OMNI: Are there cues we should be taking from the Japanese?

FORBES: It's different in Japan, because the government is a partner in the corporate approach. The Japanese government set up standards after the war that said everything exported from Japan must be of the very highest quality possible.

In our country that would not be desirable. That's total paternalism. Here people are turned off by paternalistic employers. They don't want the employer providing them all a hygienic house. If they choose to live in a tree house, they want the freedom to do so. It's not the company's business. Blue Cross and "Blue Care" is one thing, but I think our independence betwixt where we work and who we are is far more desirable. It's part of the American way of life.

In Japan the two are totally intertwined. Once you join a company, you have job security, but you must conform. You exercise in the morning to be healthy. You genuinely applaud a new output record. It's your life and your company. Well, that'll never be so in America, and I don't think it's desirable.

OMNI: Forbes had one of the first company bike racks in New York City back in the early Seventies. Later you installed a corporate gymnasium, encouraging employees to work out on company time. How do you see these as a departure from what the Japanese are doing?

FORBES: They're totally different.

OMNI: Choice?

FORBES: Absolutely.

OMNI: How has your staff responded?

FORBES: I would say 25% of the employees actively use the gym and paddleball courts on the roof, the golf nets and all those things.

Kip, director of our fitness center, will schedule a yoga class. He might bring in a karate expert or someone adept in slimnastics or modern dance.

People who work here have been trained to do the Heimlich maneuver in the event someone's choking. Specialists in various departments have been trained in what should be done for a heart-attack victim.

It's a participatory thing, though, and entirely voluntary. It adds pleasure for people who work here, but it's a pleasure of their choice.

> "I opposed the loan. Chrysler was in desperate shape because nobody wanted the kinds of cars Chrysler was making. There's a price for being wrong in the executive suite. The problem with Chrysler is not in Tokyo. Or Bonn. It's in Detroit."

OMNI: Should other companies investigate such social technologies as gyms, lounges, holiday incentives, staggered work hours and four-day work weeks to improve the work environment of the future?

FORBES: Yes. Such innovations as staggered work hours have been successful in Sweden and other countries. These things pay off in all kinds of practical ways—reduced absenteeism, greater productivity. Aside from the cold dynamics of output, recognition of the human factor by the employer creates a zest among employees. They like what they're doing and this is almost beyond price in the marketplace.

These things don't all necessarily work everywhere, however. Painting the work area with bright colors, or different colors, has not worked for the Swedes.

And then there's the four-day w week. We tried it at Forbes about years ago. It was not a success. The son why it didn't work for us was the day we closed—Friday—most c businesses were functioning. We ha have somebody in each departm That meant the Friday people wer Monday for their four-day week. In e it meant that we were on a three fully manned week. In our busine just didn't work.

The point is, though, a wise man ment *keeps trying* to create an aware of individual worth in the company I said in *The Sayings of Chairman colm,* "Everybody has to be somebo somebody to be anybody." We don't in a vacuum, and the personal eler is especially important in a com complex.

OMNI: In the workplace of tomor then, social technologies must be evant to the specific situation.

FORBES: There's no blueprint, but can't be paternalism. We're not in Japanese mold of work. We don't everybody singing the company song doing calisthenics together. That's ney. It would be a travesty here. Am cans put a far greater emphasis on sonal freedom.

OMNI: Chrysler was bailed out of b ruptcy by the federal government long-term loan guarantees. How do view the future of the corporatio terms of self-reliance versus governm alliance?

FORBES: In the first place, I opposed loan. Chrysler was in desperate s because nobody wanted the kinds of Chrysler was making. Instead of pa them a bonus to make those though, and a bonus to people to them, with the government ba Chrysler out with a billion and a hal government should have said to th "Here's an advance billion and a dollars for the delivery of tanks, w we need. You don't have to fire anyb We need these things, and your fact know how to make them and ca converted to produce them. And pay you a bonus of $500 for every you deliver ahead of time that do break down between driving it off assembly line and getting it to the p of delivery."

In short, I don't think it's a prece The previous loan that is cited, the to Lockheed, involved a defense rela ship. This was not a factor in Chrysler bailout, where the motiva was one of supporting those who going to lose their jobs, which is a real pressure. Chrysler-like loans are an answer.

There's a price for being wrong in executive suite. The problem Chrysler is not Tokyo. Or Bonn. problem lies in Detroit's execu

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suites. Those out in Detroit didn't read what all of us knew and could see. Theirs was a short-term look at profit that has cost them a long-term debit.

After OPEC was formed and the first oil embargo was imposed, we continued to nurture a dependency we couldn't afford. But we were still turning out gas guzzlers. That's Detroit's fault. I don't think we should have bailed Detroit out. I don't think the majority of Americans would support any continuance of such a direct handout to the so-called free-enterprise world.

And I don't think it's going to save Chrysler. It's not enough. It's what's happened to the whole automobile market in this country. Our problem has been created within the industry, not from abroad, and in a free-enterprise system the problem has to be solved in the marketplace, not with government handouts.

OMNI: Are we witnessing the breakup of the big corporation? The end of an era of big growth? A return to the Jeffersonian concept of small business, where rewards are for performance and not just for attending jobs?

FORBES: No. In the big corporation the rewards are for performance. I don't know of any big corporations, including IBM and AT&T, that don't have a world of competition from new technologies, other companies, and so forth. We need sizable companies. I mean we need Exxons, companies of a size that can spend $4 billion drilling for new oil. Can you imagine the people who run the Postal Service running an oil-exploration program? They can't even deliver letters. So should we turn it over to the government?

No, big business is not the problem, and I don't think there's going to be any end of it. I hope not. But it is true there are more mom-and-pop businesses than ever—tens of thousands more.

OMNI: Should there be more corporate funding of universities and research institutes for research and development in technology? Not Exxon looking at Exxon, but a fusion company for instance, looking to a university?

FORBES: Companies contribute appreciably. But where we've slipped somewhat is in the "why grass is green" area. In hard times there's been a cutback in research and development. It's a mistake and it's one reason why we've fallen behind in the technical parade.

Another reason is that we often research the wrong thing. The automobile industry, for instance, has spent its time and money investigating people's color preferences, instead of developing a more efficient gas-burning engine. That's being behind the need rather than anticipating it. And in any business, particularly the hardware business, if the need isn't anticipated for what they'll be doing three years from now, they won't be doing very well three years from now.

OMNI: Is Forbes involved in any kind of corporate philanthropy for research and development?

FORBES: Not really. We support the arts generously. We've set up and support several museums. We do contribute very substantially to educational institutions, including those with which we're affiliated, and others, but not directly in an R&D sense. We probably should, but we haven't.

OMNI: Is American technology eroding? Are we moving into more of an import/export economy?

FORBES: You can't be in an import/export economy and have an eroding technology. That's where the British have fallen on their face to the Japanese, who now hold the position Britain maintained a hundred years ago.

> "I don't agree that we should promote low technology over high technology. We've all gotten quite good at sticking hubcaps on tires. There can't be too much emphasis on devising the computer that determines whether they should be stuck on at all."

To export, you have to be competitive in technology as well as in price. This is why we're now importing some technology from Japan. We're importing some of the techniques the Japanese had to develop because they had no resources. Whether it's motorcycles, automobiles, radios, cameras, television sets, Japanese technology has had to be competitive in order for the Japanese to export.

We've suffered complacency here. I think, however, we're rapidly getting over it, under exigencies laid down in the marketplace. We're fairly innovative; we have a lot of companies that have stayed aggressive and hungry and lean and keen.

OMNI: In which areas have we slipped?

FORBES: The automotive field, which was one we'd pioneered. In the TV field, and in the miniaturization of electronics, we've slipped, too. It's a tough world out there, and you can't slip long and still export. Export/import is not a substitute. It's a result of being ahead in techno And so are awakening from the leth that success for so long gave us, par larly while the rest of the world was on its face after the Second World W

OMNI: Is an emphasis in the school more technical education at the exp of the humanities an answer to revit ing industry and updating our plants machinery? Should engineering sch promote more studies in basic techn gy, rather than favor the glamorous a of computer science, data processing oil engineering?

FORBES: Yes. I think most of the ex ment in the future of industry lie making inroads into technology. I don't agree that we should promote technology over high technology. W all gotten quite good at sticking hub on tires. There can't be too much em sis on devising the computer that st them on more accurately and even d mines whether they should be stuc at all.

The Navy Department, for exan can't function with what it has, no lack of low technology, but becaus don't have enough of the other. Th where the excitement is, in high t nology, training somebody who ca things when they break.

OMNI: Should there be less emphasi the humanities in schools?

FORBES: Without sacrificing the hur ities. The humanities are vital. We just change the proportion of the n bers of those entering humanities ve those entering the sciences. I don't lieve in these great coordinated progr that say, "Five years from now we'll ten thousand more technicians in area, forty thousand more in that. H a program to fund it." I think supply demand is the great impetus.

There will always be, and should encouragement for studying civiliza and its literature and its poetry. there's no way an increased emphasi high technology will lessen the nur of poets who are turning out verses in garret or after-hours at McDonald's.

What should be pointed out to yo sters, though, beginning in the presc years, are the boundless opportuniti science. I think parents should be n attentive to turning kids on to the citement of research through ga chemistry sets, television science grams. Kids who have any interes technology should be made aware o growing demand for skilled biolog micrologists and computer scient and of the increasing financial payof

OMNI: Where do you see the gro areas in science?

FORBES: Medicine, biology, energy. W going to have energy running out of ears in five years.

OMNI: Considering that virtually all nificant solar pioneering companies

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owned by big oil—Arco, Exxon, Mobil and Shell—can we expect a low-cost solar energy to emerge? And are these the right companies to be developing solar?

FORBES: It seems to be complicated to make the solar cell affordable. But we are not depending on the oil companies exclusively, though their future does depend on their doing it.

Maybe a Gould—in the battery area—or a Kodak—with its film that gathers and transmits light—will become the biggest energy company. Competition of big business for a future in survival will eventually give us lower-costing energy. But I think there's no need to be crybabies about it or to think we can turn overnight to dependence on solar. We will, though, in five years have energy coming out of our ears. When we do, the price of energy will diminish.

OMNI: What would you change in the educational system to prepare the businessman of tomorrow?

FORBES: I'd say a little more case history on the high-school and grade-school level. What is General Electric making? What was the relative size of GE when their dads went to school? Maybe 50% to 80% of what General Electric is selling today didn't exist then. In other words, turn them on to the fact that there is nothing static either about the satirical view of the businessman or about business itself. It's a living organism that can thrive or suffer ill health and atrophy.

It's important to cover the business about exploiting labor and Marxism, but the stress should not be on all that ideological stuff. Schools don't have to spend all that time trying to say business is good and that all glory stems from free enterprise. Youngsters naturally become aware of the incentive system and of the fun of rewards through being given allowances for mowing the lawn. Rapacious business, monopoly, oligarchy are all things they just come to understand.

OMNI: Others have suggested that the best education degree for the future is an M.B.A. combined with a technical background, particularly for women. Do you agree?

FORBES: It's an ideal combination if you can have an engineer who's a graduate of a business school. For women, God, what a unique thing! With such competence maybe they wouldn't even be criticized for being promoted.

OMNI: Since every last mineral can be found in space fiftyfold, do you think a principal aim should be to recapture the vision of space exploration that we quickly abandoned after we landed on the moon?

FORBES: Space is, pardon the pun, so far out that I find it hard to reach out and understand. I can understand mining the bottom of the seas, for instance, for these great nodules of valuable metals. The resources on this planet seem reasonably boundless. Space is so vast that it reaches beyond my comprehension.

OMNI: Are you familiar with the mass driver and with Gerard O'Neill's book *The High Frontier*?

FORBES: These high frontiers are surely exciting, but whether it's economical to go there to support the earth's population, I'm not sure. I think it more immediately feasible to concentrate on the planet we are stuck with and on.

But it's very important that we don't overlook space, which is such a turn-on to such increasing numbers of people. Space exploration has got to be encouraged. Who can imagine what the horizons are? They're limitless in terms of what we may learn about life.

As to giving exploration an economic basis now, though, it's hard to see how the answers could lie out in space. At the same time, if we're not out there exploring, learning—we've already discussed how corporations don't anticipate the future—it's a mistake. Considering all the products that have been derived from our space effort, we'd better hoist up our boot straps and get back into the act.

> "Competition of big business for a future will eventually give us lower-cost energy. There's no need to be crybabies or to think we can turn overnight to dependence on solar. We will, though, in five years have energy coming out of our ears."

OMNI: How do you view the Moon Treaty? Should the profits of space be shared equally among all the nations of the world, so that Sri Lanka, for instance, gets material benefits the same as France, even though Sri Lanka has no space program? Could private enterprise and Third World interests both be met in space?

FORBES: I think it's a nice academic theory but the point is, who's going to spend all the money to dig out the ore if all of it has to be turned over to the commune of nations? You obviously can't go out and stick a flag down, as in the old colonial days, and say the moon is yours. This is your Saturn. But you just can't remove incentive and say everything belongs to everybody. That would mean nothing belongs to anybody, and nobody would go get it.

Knowledge brought back from spa feel, should be universally shared so Uganda receives 100% of whatever know. And Sri Lanka would also 100%. But as for the material thin think it's a bridge that may not hav be crossed for a few lifetimes.

OMNI: But what if we were to cross bridge?

FORBES: It's like Arabian oil. The A were poverty-ridden nomadic peopl many respects, until they found oil. sumably, they're very pro-Third W But as for how much they'd be willin share with Sri Lanka, as far as I know Lanka is paying what we're paying f barrel of oil these days.

I think that if the French find a lot of on a particular asteroid, then Fra should be able to sell the ore in the w marketplace. Then somebody else wil after another asteroid for ore as entre neurs have done on Earth for oil and everything else. Competition makes p ple go seek it and mankind profits uni sally. Though a drug company may the rights to a certain medicine, mank globally eradicates a certain disease.

It is the kind of academic question which it would be wonderful to hav practical case to argue. I think we'll benefit when somebody does come b with something that everybody wa We'll all be the beneficiaries th whether we have universally agreed share equally or not—which is unlike

OMNI: You were the first man to cr the United States in a hot-air balloon the first foreigner to cross the So Union on a motorcycle. You've cycle the Arctic Circle and back. Where your next adventure take you?

FORBES: The next corporate stockhol meeting in Fiji. I don't know. I find ev day quite an adventure. Going to an a tion or art gallery. Getting a letter ab a collection of paintings or the prospe of another piece of Fabergé becom available. Negotiating and figuring where and how far we can go. Just sitt down this morning and doing a few e torials for the next issue of FORBES. pressing opinions and not having to low through with implementing d sions for telling the new President w to do. Telling corporations why t shouldn't be doing such and such. good fun to be giving advice. I'm m better at that than taking it.

OMNI: What kind of president wo Malcolm Forbes be?

FORBES: Of Forbes, Inc., which he enjoyed. In public life I'd be ideal, cause I wouldn't take it. I haven't b offered it. Nobody's asked me. And, y know, the unlikelihood of that is to So I can be very objective about it. flattered that such a question was e asked. ■

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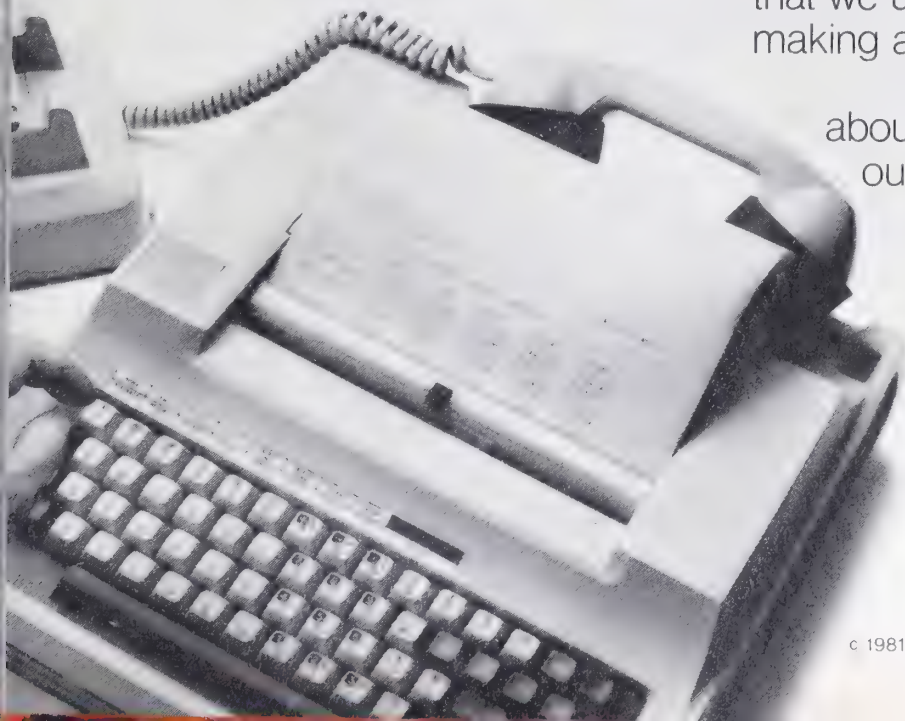

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Every week there's a new bid for a natural resource company, and Eastern Gas & Fuel is a tempting target. Does Bill Pruyn's Boston Gas subsidiary make him takeover-proof?

Coal comfort

By Howard Rudnitsky

WILLIAM PRUYN, Eastern Gas & Fuel's straight-talking president and CEO, is clearly relieved that there won't be a long coal strike. His company is a major Appalachian producer, and he has painful memories of walkouts in 1977 and 1978: Eastern's coal operations lost money in 1978 as a result and its stock plunged from a high of 29 to 13. Late last month, Eastern's shares were trading in the mid-20s.

That's because the Boston-based company should now post an earnings gain over last year—but it doesn't mean Bill Pruyn, who has run Eastern since 1977, is a man without problems. He worries about "Eastern's cyclical and erratic earnings pattern" caused by periodic strikes and supply interruptions. The $1 billion-a-year company has yet to match the record $66 million it earned in 1976.

Eastern isn't just a coal producer. As its name suggests, it is in the gas business too. It has long owned Boston Gas, a Massachusetts utility. That accounts for $369 million in revenues and some 40% of total pretax earnings, which last year came to $85 million. Pruyn's most profitable business now, however, is marine transportation: Eastern owns Midland Affiliated Co., which with some 1,600 barges is the nation's largest carrier on inland waterways. Midland sports pretax margins of 14% or better and last year provided Eastern with 38% of pretax earnings on only $211 million in revenues. The rest comes mostly from coal.

Eastern, however, has had problems of late at Boston Gas. First came the second-coldest weather in 100 years. On top of that came a fierce storm in Algeria, which closed the port of Arzew, which supplies Boston's LNG. Result: Pruyn had to scramble to buy costly supplies on the spot market. While no one was without gas except for a one-day closing of a few schools, Pruyn voluntarily declared a moratorium this year on all hookups. That torpedoes growth for now, but by next year Boston Gas could resume growth in gas volume—and earnings.

Beyond the Back Bay, Eastern is much more a coal company than it appears. Its West Virginia mines produced some 8.8 million tons for steam and metallurgical customers last year. That was a near record—even though pretax coal profits were less than half the level of 1976, before production costs soared. This year Pruyn thinks output could reach 10 million tons, and he hopes to reach 12 million by 1983. Midland is a coal play, too. Its barges ply the Ohio, Illinois and Mississippi rivers and two-thirds of their cargo is coal. Its total coal-related revenues account for some 50% of Eastern's business.

Steering an Eastern barge along the Ohio River
More of a coal company than meets the eye.

How big are Eastern's coal reserves? The stated figure used to be 1 billion tons. "However, last year we had to report reserves according to SEC rules—similar to oil reserve accounting—which reduced our reserves estimate to 768 million tons," says Pruyn, a graduate of Harvard's School of Business Admini tion who has been with the com since 1951. "That doesn't take int count some known but unproven seams. It also doesn't include our W ern Coal subsidiary's joint vent which we are just developing." By late 1980s, that could be considerabl

As with most coal producers, East real reserves are greater than the st amount. But what could even the re ed 770 million tons of high-grade eas bituminous coal be worth today? "W mulls Pruyn, "the deal that recently through between U.S. Steel and S might give you some basis. Accordin what I read, they had hoped to sell S about 800 million tons at 94 cents a t don't know if the deal collapsed price or over other reasons."

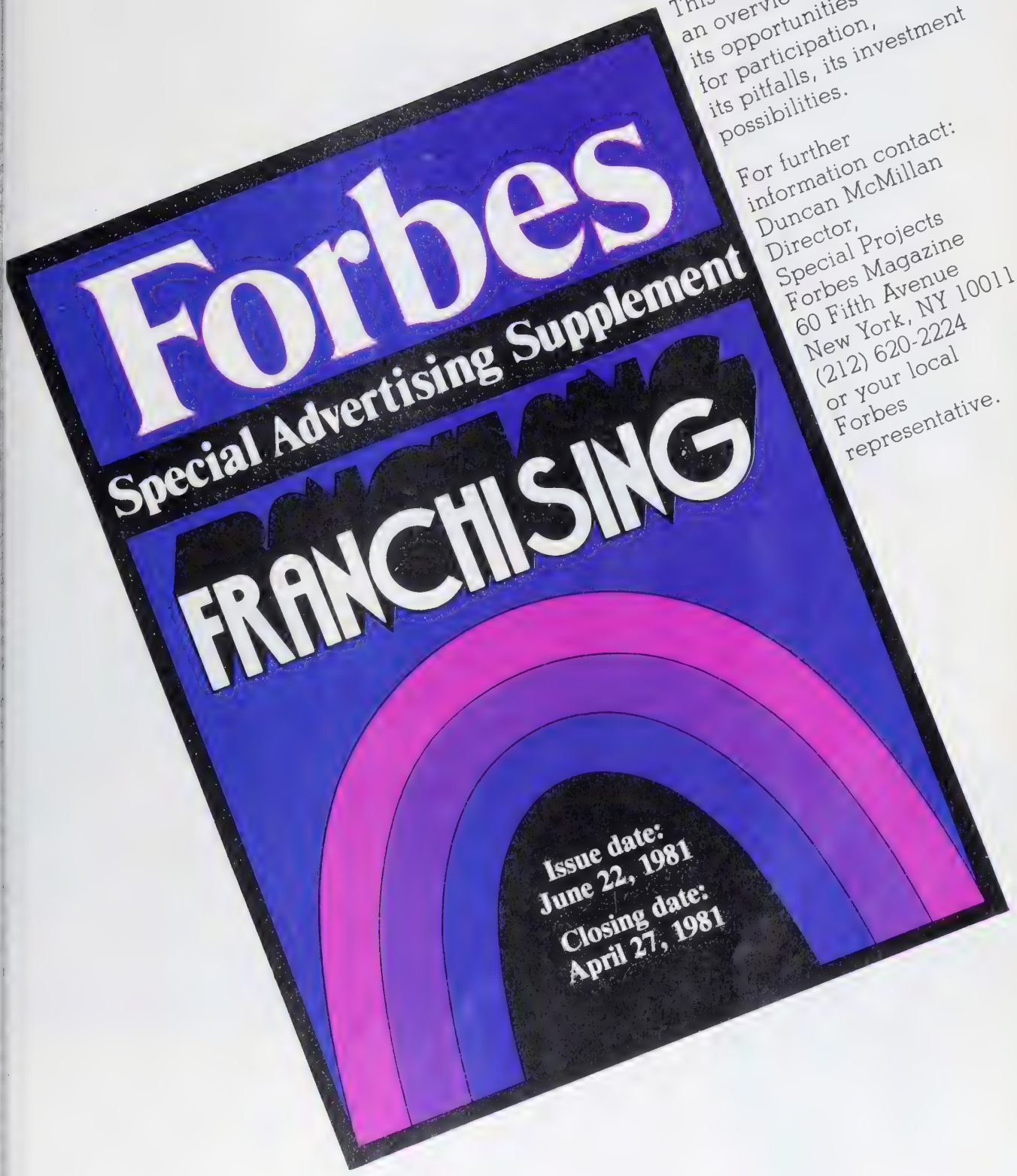
One thing Pruyn does know, howe is that some 60% of that coal is very in sulfur content. Such reserves are h ly desirable to utilities and others need to burn cleaner fuel. Even at a n conservative figure of 50 cents a then, Eastern's reserves are worth ne $400 million. The entire market valu the company is nearly $600 million.

Pruyn, of course, knows he's got m ey in the ground (and also potenti valuable gas and oil leases in the Ro Mountains). So he's eager to spend s $750 million by 1986 to dev all his businesses. It's also he'd like to see his stock sel more than its current price the recent takeover attempt Kennecott and St. Joe illustr lots of buyers are shopping natural-resource bargains.

What defense does Pr have against an attempted t over? Certainly not large m agement ownership position staggered voting for his boar directors. Eastern, however, one asset that might scare some buyers—Boston Gas, regulated utility.

There have been many rec mining company takeovers, few were hostile and none volved electric or gas distribution c panies. Regulatory hearings would ea much time, the enemy of unfriendly s ors. Eastern's corporate framew makes it more tempting. Eastern Ga Fuel Associates is a holding compa once controlled by the Koppers Co. the outgrowth of a reorganization c pleted in 1950. It has three major sub iaries, each having its own capital str ture. That might facilitate spinning Boston Gas from Midland and the c mining operations.

For the moment, of course, there's one knocking at Pruyn's door—and t suits him fine. He's had to deal with headaches of the coal businesses. N he'd like to enjoy the benefits. ■



This supplement is an overview of franchising—its opportunities for participation, its pitfalls, its investment possibilities.

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ANOTHER
CAPITALIST TOOL

Faces Behind The Figures

Edited by Jefferson Grigsby

Consider the possibilities

What will the brokers think of next? Don't rule anything out. Consider E.F. Hutton's plans for its new commercial credit subsidiary, acquired in March from International Paper.

Already Wall Street's biggest vendor of tax shelters, Hutton sees all kinds of possibilities: selling more equipment sale-leaseback partnerships, leasing equipment, lending money to investment banking clients, as well as to companies whose officers trade through the firm. Who knows, says President George Ball, some day Hutton may be selling you securities with loans collateralized by your house or your business.

But if the Fed wouldn't allow that? Well, the real deal anyway is the tax shelter it represents to Hutton itself. Says Ball: "It will provide rather major investment tax credits, accelerated depreciation and interest expense deductions to help us shelter other income."

All in all, says Chairman Robert Fomon, "I'm amazed that one of our competitors didn't think of all the advantages before we did." In fact, diversification is so much fun, says he, that his next step may be in a completely new direction: "We're looking at setting up a new division—from scratch—to go into the energy business."—**Newcomb Stillwell**

E.F. Hutton's Fomon (seated) *and Ball*
If nothing else, the tax-shelter angle.

Agee talks about something else

While other conglomerates have been going after natural-resource acquisitions, Bendix Chairman and CEO William Agee has been repositioning his $3.9 billion (sales) company "back to our technological roots." Last year Agee sold off

Bendix CEO William Agee
"The past is behind us."

both his forest products business and Bendix' 6.1 million shares in the big mining and metals producer ASARCO for a total of $770 million. Now Agee is back, with most of that money still earmarked for a major acquisition—and with a new number two man, former Carter White House Staff Director Alonzo L. McDonald Jr.

McDonald came to Bendix as vice chairman last month, and will take over as president on June 1. His appointment capped a long search that began last July, two months before former President William Panny was suddenly ousted in mid-September for resisting Agee's decentralization program. McDonald will run staff activities like strategic planning and finance, so Agee can concentrate on acquisitions and operations. In operations, Bendix' R&D budget has gone up over 15% in each of the past two years; and as for acquisitions, three Bendix directors who also sit on the board of Burroughs Corp. resigned in March to set up what Agee calls "an anticipatory situation . . . [to] cut out the potential interlock between the two companies."

Any sizable acquisition in computers—if not Burroughs itself, then a competitor—would mark a milestone: For the first time in 20 years, automotive products, Bendix' original business, would become less than 50% of revenues. And after acquiring Warner & Swasey last year, Bendix' industrial gy group is now the nation's se largest machine tool manufacture hind Cincinnati Milacron). Says Agee, perhaps thinking of many th "The past is behind us."—**Jay Gissen**

Mann's plum?

Why does Britain's Bass Ltd., the (1980 sales, $2.8 billion) brewing g hold 20% of tiny $22 million (sales) York-based Hardwicke Cos.? True, I wicke runs two well-known Manh restaurants, Maxwell's Plum and T on the Green. Too, it's planning a million Atlantic City casino. But I wicke lost $60,000 in the first quar 1981, *vs.* a $199,000 profit for the period in 1980. And the casino hanc Atlantic City hasn't been all that te lately. Dissident shareholders le Stanley Mann (FORBES, *Nov. 10, 1980* raising hell about directors' salarie perks: Chairman Charles St $300,000 salary, $480,000 expenses $750,000 interest-free loan, for inst And now it seems Stein may be see financial help for his casino from C go's Jay Pritzker. "It's no secret Cha a close friend of Jay Pritzker," sa Hardwicke spokesman.

The answer is that Bass never cho get involved with Hardwicke. It inh ed the stock when it bought Brit Coral Leisure Group. Coral has the r

Hardwicke shareholder Stanley Mann
Raising hell about salaries and per

agement contract for the Ritz Carl an Atlantic City casino. Curiously, C assigned the voting rights on its stoc Hardwicke's Stein. Now he needs all votes he can muster. Through Diam Industries, a Wilmington, Del.-based oil company, and with the help of frie including New York securities ana Andrew Racz, Mann now controls ab 11% of Hardwicke, and he's looking more. Stein holds 38%, if the Bass st

ncluded. Naturally Mann has ap-
ched Bass, without success so far.
t could possibly change. Presumably
, an old, established brewery, needs
ingers in this particular pie like it
ls a hole in the head. Watch this
e.—**Maurice Barnfather**

A natural?

Anthony Tuke, who formally takes
in May as chairman of the $5.7
on London-headquartered global
ing empire of Rio Tinto-Zinc, sur-
the mining industry's seemingly
len new popularity with equanimity.

s new chairman, Sir Anthony Tuke
immune to a takeover.

TZ is not immune to takeover,"
e told FORBES during a recent visit
New York to bid farewell to the top
ss of London's Barclays Bank (he's
ng up the chairmanship after eight
rs, but staying on the board). And a
ing company might do worse, Tuke
ts, than be taken over by an oil
npany. "It's natural for oil companies
lly themselves with other companies
t dig things out of the ground," he
s. "It's not necessarily undesirable
er."

las Exxon, or anyone else for that
ter, taken a pass at RTZ? After all,
one of the world's most successful
twar mining companies (FORBES, *Oct.*
1978), built virtually from scratch by
late Sir Val Duncan, Sir Mark Turner
the now retired Roy Wright.
ough its affiliate, Conzinc Riotinto of
stralia Ltd., it has a strong position
he Down Under continent's miner-
boom *(see p. 43)*. The British govern-
nt's removal of exchange controls in
9 swept away at a stroke a major
dle to a foreign bid for RTZ. "No,
nothing of that sort has been pro-
posed," Sir Anthony says, perhaps just a touch too self-consciously. "And if you ask me if we are seeking a merger, the answer would—of course—be no." Of course.—**Maurice Barnfather**

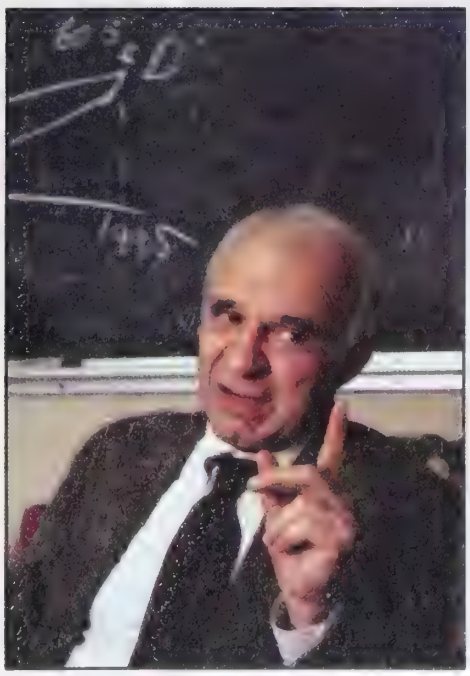
Leontief joins the system

Wassily W. Leontief, the brilliant Russian-born economist, is best known for two things. While teaching at Harvard, he developed input-output analysis, which in precomputer days was a major development in economic forecasting and won him a Nobel prize in 1973. Leontief is also known for his ultraliberal views, some of which were reflected in the George McGovern campaign in 1972.

Now age 74, Leontief is joining the corporate world—sort of. Control Data Corp.'s Service Bureau Co. has contracted to use input-output data for its new (since January) X/Market Business Information Service, which is competing with McGraw-Hill's Data Resources and Dun & Bradstreet. The prospective buyers apparently like X/Market: Some 250 have already signed up for the service through Control Data's time-sharing facilities, and it could bring in revenues of $12 million or more a year.

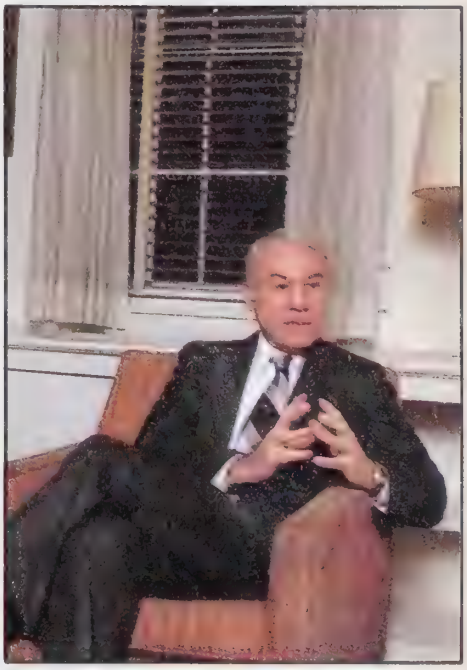
How does Leontief feel about being in business? Not bad at all. "Originally," he says, "I developed input-output not to help humanity but to find out how the system works." With a $375,000 grant from Control Data and access to that firm's vast computer network, Leontief, who now lectures at New York University, hopes to find out even more about how the system works.

Of the U.S. business system, Leontief, a great believer in planning, says: "The U.S. has incentives but no good information." His information-service competitors would probably disagree with that, but then, they don't have Leontief's lofty credentials.—**Jayne A. Pearl**



Nobel laureate Wassily Leontief
Joining the corporate world—sort of.

Situation wanted



G. William Miller
After a sabbatical, back to business.

The bookshelves were bare, the secretary hadn't moved in and the telephone had just been connected when FORBES called on G. William Miller last month in his new office a few blocks from the White House. "I'm taking a little sabbatical and then I'm going back into business," said the former Treasury Secretary, ex-Fed chairman and ex-chairman of $3.4 billion Textron. Anything definite? Miller has rejoined the board of Federated Department Stores, and has other offers, he says, but "nothing pressing."

What does Miller, known as a loyal company man in the Carter Administration, think of the Reagan Administration? On balance, he's surprisingly sanguine—but with some warnings: Don't cut taxes before cutting spending, don't make depreciation reform too complicated. "What they propose is a different depreciation for assets put in place each year over the next five years and then, within that matrix, different rates for different categories of assets," says Miller. "That's going to be a complex accounting problem. For small businesses, it's almost a nightmare."

As for Reagan's $48.6 billion budget-cutting program, Miller says it's not the size of the cuts that bother him, but which programs will get the ax: "To reduce the cycle of poverty breeding poverty, we must not break up programs that give hope. Austerity should be fairly shared." Furthermore, since defense

Faces
Behind The Figures

spending will increase while other programs are cut, "the danger is that a signal may go out indicating that anything goes in military spending, and those spending the money lose their discipline."

But over the long run, Miller says, he has faith in Congress to judge such matters. Says he: "If you cannot sell it to Congress, then something is wrong, because Congress is basically logical, basically reactive."—**Maurice Barnfather**

No leash, no muzzle

Will Ronald Reagan's business-minded Administration—or its budget cuts—pull the teeth of the SEC's enforcement division? Ridiculous, snaps longtime chief enforcer Stanley Sporkin. "Obviously our budget is being cut, but only 8%," he says; in fact, "this Administration realizes our agency needs beefing up, I think, and they've taken steps to do it."

Naturally, new Chairman John S.R. Shad may set some different priorities. But in the past that has not necessarily meant less enforcement. For example, says Sporkin: "The last Administration took a dim view of tax shelters—so we brought a number of major cases."

The truth is, he says, "good companies want us around. They don't want to compete with fly-by-nights any more than the airline industry wants competition on the basis of unsound planes."

Enforcer Sporkin
Nobody likes the fly-by-nights.

The U.S. securities industry and its watchdog, he says, "are still the best and we're going to keep it that way. There's no Japanese model that's going to put us out of business."—**Maurice Barnfather**

Workingman's conservative

Banker Ed Katz is far too conservative for today's newfangled supply-side theories. "I don't see how they can do anything but raise inflation," he says. "But you can't predict that. You can't guess interest rates either. What you *can* do is make a quarter, a half, three-quarters on the spread and stay short so you nev with a loss."

An old curmudgeon of the fa right? Not exactly: Katz, 59, is pres of the Amalgamated Bank of New owned by the Amalgamated Clothi Textile Workers of America and the one of three dozen union-funded b from the Twenties still in existence his office window in lower Manh he can see Union Square, a historic ing point for labor in one of the mos union cities in America. When c upon, he lends bail money to str union members around the country his auto loan rate, which Katz call "consumer's prime rate," is a reaso 15% (on American cars, that is; fo cars are a half of a point higher).

But does Amalgamated make mo Yes, as it turns out: Just over $5.7 mi last year on capital of $48 million, v year-end assets rose from $950 milli $1.1 billion. This is mainly a ban unions. Amalgamated manages $1.2 lion in union pension funds, and ha other $400 million, about half u money, secured by "repos" of U.S. ernment paper that are Amalgama version of CDs. Katz offers a similar to individuals; $125 million of Am mated's trademarked USAVE certific are outstanding.

It's a different story on the loan At year-end, $125.7 million worth outstanding (of which $27.2 million to individuals) on half a billion in de its. Mortgages? Forget it; the $21.8 lion still on the books matures in than five years. Nearly everything U.S. Treasury, U.S. agency and some nicipal obligations, with an average turity of 134 days. "We are," says proudly, "probably the most liquid b in the U.S."—**Harold Seneker**

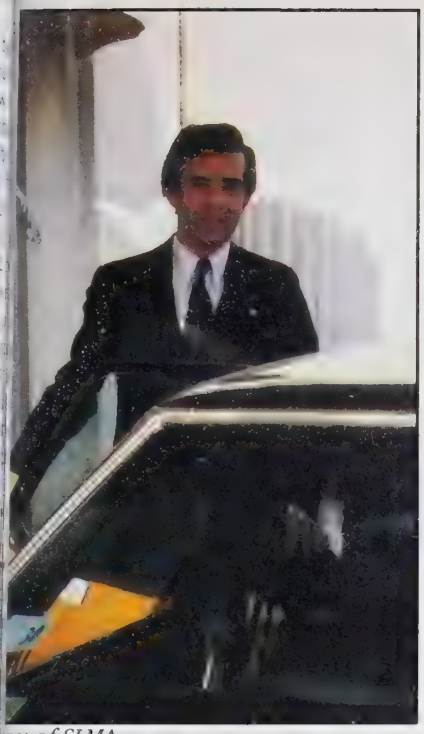
Amalgamated Bank's Ed Ka
A different story on the loan side.

The quick Ed Fox

Nobody can accuse Edward A. Fo bureaucratic recalcitrance. Even be President Reagan's budget messag Congress, the president of the fed Student Loan Marketing Associa was able to announce that Sallie Mae phasing out its dependence on gov ment financing.

The 44-year-old Fox, who has hea Sallie Mae since Congress set it u 1973, has been pushing almost from time he took office to go it alone in public capital markets rather than on the Federal Financing Bank.

Under his prodding, enabling legi tion was passed last year. So, when R gan's budget-cutters came into off Fox was quick off the mark. Over next 18 months, the FFB will increase holdings of Sallie Mae obligations to billion, from the current $3.3 billion. in the meantime, Sallie Mae will er the short-term market, and within a y



ox of SLMA
ie Mae was all ready.

a half end all FFB borrowings. ill charges of widespread delinquen- and defaults on student loans hurt ie Mae in the public markets? Fox its out they haven't hurt profitabil- –15% to 20% on equity over the past years. There's a good reason for that: hough Sallie Mae may be ending its ance on the FFB, its loans to students will be government-guaranteed. it ought to be a pleasant attraction the investor, he figures. Says Fox: hen we started, no one thought we ld make it. But we'll be the first to public."—**Ben Weberman**

Sic transit gloria

975 Inland Steel Co. granted a license apan's Nippon Kokan K.K. (N.K.K.) to a key part of Inland's conventional nealing" process, a five-step, ten-day hnique of heating and cooling steel to ke it stronger and more flexible. Last r Nippon Kokan licensed Inland to *its* improved continuous annealing cess—developed, of course, from In- d's. Nippon Kokan's, though, is a little ter: It has only one step and takes just *minutes*.

The Japanese are the soul of courtesy but these things. "The U.S. steel in- stry were the teachers," said Nippon kan President and CEO Minoru Kanao New York last month. "We learned erything from them. Right now they having some problems due to a lack capital investment, and we are glad of opportunity to help."

What was Kanao doing in New York? ell, he was visiting N.K.K.'s U.S. sub- liary, recently formed to line up con-

Kanao of Nippon Kokan
Too bad about the teacher.

sulting contracts with American steel, construction and shipbuilding companies. With Japan now the world's second-largest steel producer (behind the U.S.S.R. and ahead of the U.S.), $5.8 billion (sales) Nippon Kokan is in the forefront of Japanese technology exports (FORBES, *Nov. 10, 1980*).

Kanao's company is Japan's second-largest producer of steel, but it has both the world's largest mill and the most technologically advanced mill—as well as that lucrative and growing side business in technology transfer. In the past five years it has won some 20 contracts in consulting, licensing and equipment supply for U.S. firms, including—most recently—Kaiser Steel. How have the mighty fallen. . . .—**Subrata N. Chakravarty**

Getting away from it all

Where is Edsel Ford II? It's a question Detroit-watchers have been asking since November, when the Ford Motor Co. announced that the only son of Henry Ford II was returning to the U.S. after almost three years of helping to manage Ford's Australian car and truck operations. Young Ford, the 32-year-old great-grandson of founder Henry Ford, was to take a "high-ranking" position at the company, presumably to get on track to take over—someday—the chairmanship his father vacated last year. (Henry Ford II retains his seat on the board, however.)

Since then, not much has been heard from young Edsel. The company would say only that he was taking an advanced management course at a university "on one of the coasts," and that his assignment was as yet undetermined. Intrigued, FORBES caught up with Edsel last month. Until mid-May he'll be in Boston at the Harvard Business School's Program for Management Development, an intensive—and, at $12,000 for tuition, room and board, expensive—three-month course for middle managers whose "future responsibilities in general management will demand skills and knowledge beyond [their current] specialty." Edsel—and Ford—still aren't talking much. Says a Ford spokesman: "We aren't trying to be evasive. Edsel just wants to get away for a while before he jumps back into the fray."—**Anne Bagamery**

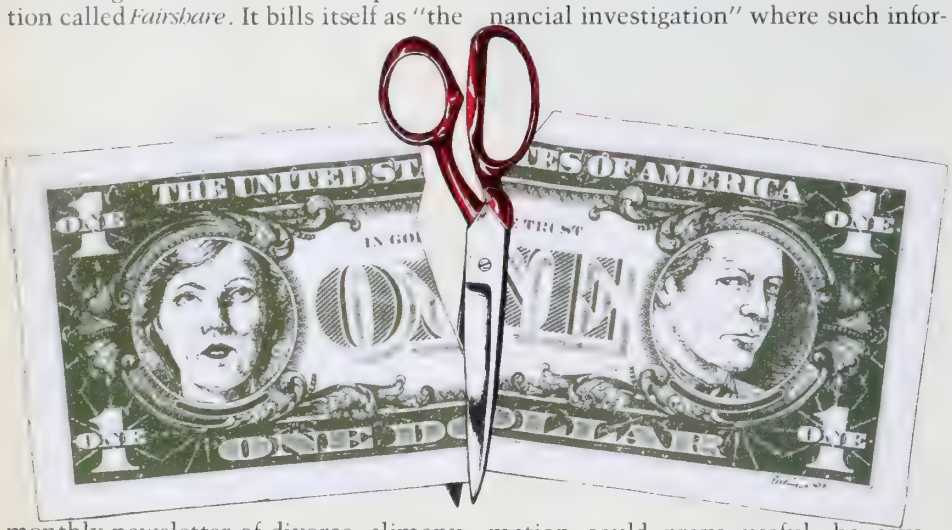
Edsel Ford II
A little break before the fray.

Personal Affairs

Edited By William G. Flanagan

Fire them gently

If you have ever fired anyone and if you subsequently get divorced, it might wind up costing you a bundle. How so? If the fired employee should ever fink on you to your spouse during divorce proceedings. In fact, some lawyers, bless their black hearts, are now searching out disgruntled ex-employees to get financial dope on their clients' husbands or wives. And the practice is bound to grow—thanks to a new publication called *Fairshare*. It bills itself as "the monthly newsletter of divorce, alimony and marital property." The lead article in its premier issue is entitled "Use of the Disaffected Employee as a Discovery Technique," by Gary N. Skoloff, himself an attorney.



In it, Skoloff tells lawyers how to get ex-employees to spill what they know about the financial dealings of their former bosses, the better to enrich the lawyers' clients and, indirectly of course, themselves.

"A disaffected employee may have the practical knowledge as to how the spouse-employer conceals cash, converts checks into undeclared income, alters various types of records, uses credit cards for nonbusiness purposes . . ." writes Skoloff.

He counsels his lawyer-readers to confer with the wife to review former employees over the past five years who "may harbor ill feelings toward the husband-ex-employer." He suggests that the wife, rather than the accountant or attorney, make the initial contact with the potential ex-employee, "not because it would be unethical, but simply because, in most cases, the ex-employee will feel more relaxed . . . not in the presence of an attorney."

Skoloff goes on to say that the ex-employee should be assured that he or she will never be summoned as a witness in any court proceeding; the "primary use of the disaffected ex-employee is obtaining the types of information to lead the accountant along a straight path in the discovery process."

There are certain "fertile fields of financial investigation" where such information could prove useful, he says—where domestics are listed as salaried employees of the husband's business; where merchandise was sold for cash that was pocketed; where home furnishings and improvements were charged to the business and where gifts or purchases were charged against the company.

"This simple approach requires minimal effort, expense and expenditure of time, but if successful, can be the most successful discovery technique employed by the attorney," Skoloff concludes. Wonder what he'd say about divorcing husbands having a chat with the attorney's ex-employees.

Creative home building

A lot of home sellers—about a third by some estimates—are using "creative financing" to sell their homes. Giving second mortgages or loans to buyers is sometimes the only way to sell a house these days.

But what about buying? Other than getting better financing terms from a seller than a bank would offer on the full mortgage amount, what alternatives does a a prospective home buyer have?

One idea gaining a lot of favor is to have a new house built yourself, from the ground up. If you are careful, it is possible to save 10% or more on a brand-new home. And if you are at all handy, you can add substantially to your savings. Simply doing some painting, landscaping, installing insulation and putting up interior trim—not exactly skilled labor—can easily save several thousands more on a home.

Being your own contractor—whicl lows you to deduct from your inc taxes the sales taxes on the building terials you buy—will cost you time effort, of course. And if you are not c ful, you could even wind up spendi lot more than you intend (beware overruns). But *The Family Banker*, lished by Continental Bank in Chic estimates you can build a $120,000 h for $73,600, including land, by over ing the construction of the home y self, and putting in some "sweat equ of your own.

First off, you'll need a building lot. beware of buying a site that is unbu able, or one that is not suited to the b design of the home you want built. the people who come to us, 60% d even have building lots," says one c tom builder. "For a few people that even be good because some who did h lots were shocked to learn that t property wasn't buildable."

Before you agree to buy a lot, ch your building intentions with the app priate building codes department—n nicipal, township or county. The co will prescribe, among other things, h much setback the house must have front, back and on the sides. Also ch the zoning on the property, and av ability of water, sewage, gas lines a electricity. Having to drill your own w and put in your own septic system co mean costly problems. Remember, t selection of a lot is the most importa step in saving money when building y own home; discovering later that y have to alter a builder's basic design make other expensive adjustments co wipe out any savings.

Local builders and contractors w doubtless have several different desig of homes you can choose to have bu You might also want to order a partia prefabricated home. Make sure lo building codes permit the kind of des you want (for example, a basement m be required).

The cost can vary widely, of course, f the materials needed in the type of ho you want. But some companies will s you a complete package of materia right down to the last gallon of paint, f a complete two-story, four-bedroo 2½-bath home with 2,300 square feet living space, plus a two-car attached g rage, for $60,000 or so. To that, reme ber, you must add the foundation (abo $10,000) plus the site cost, plus lab costs for electrical, plumbing, cabinet and other work.

Financing your own home can tricky. A conventional mortgage m not be possible to arrange until y actually have a certificate of occupan But once you own the building lot, so interim financing might be arrange And if you already have equity in existing home, you might be able

ge some financing against that.
ntinental Bank will send you a free
et on the subject, while supplies
Write *The Family Banker*, Continen-
inois National Bank and Trust Co.
icago, 231 South LaSalle St., Chica-
l. 60693.

portrait of himself

here's nothing quite like seeing yourself in oils, peering down from the wall of the company board-, or in your own library. After all years of struggle, why not a little y?

leed, the demand for executive por-, has remained constant for de-—egotism is never out of fashion. he number of good artists who can ou on canvas is shrinking—nonrep-tational art having taken its toll. So ght take you a bit of time to find an whose style you like. "You are ask-omebody else to interpret you, and s a touchy subject," says Robert laugh, curator of the art collection of irst National Bank of Chicago.

e place to find top-notch talent is aits, Inc. of New York. As the name ies, the 41-year-old firm deals exclu-y in portraits, and represents over rtists. About 25 are particularly ac-n executive work.

You can get an information folder from PI, or visit its gallery on Manhattan's East 57th Street. Co-owner Rutgers Barclay or his assistant will show you various portfolios and price lists. Fees reflect the artist's reputation, and also the size of the portrait. Minimum cost is about $2,000 for a head-and-shoulders work to as high as $25,000 for a full-length portrait. (Prices include a 40% commission for PI. Framing costs another $200 to $1,000 for gold leaf.) Delivery takes about two months.

If you have the time or staff to investigate, you might find talented local artists through galleries and exhibits. Note museum galleries especially. The National Portrait Gallery—part of the Smithsonian Institution—keeps some copies of the portrait work and a reference section on artists, including Jamie Wyeth, Gardner Cox and William F. Draper. Visitors can browse through the folder in the gallery's library.

The Rental and Sales Gallery of the Art Institute of Chicago also has a list of local artists who do portraits. According to Marta Pappert, gallery administrator, there are about 50 galleries connected to museums around the country that may be able to help.

Once you find an artist with an agreeable style, talk over price, size, delivery dates, framing, the number, length and location of sittings, and whether the artist will make alterations. Most will change details if the client requests. Everett Raymond Kinstler, a New Yorker who recently painted Gaylord Donnelley of R.R. Donnelley & Sons Co., notes, "Subjects can see things I miss, like the hands may be too big."

Some artists wish to see where the portrait will eventually hang, to make sure it "fits." Others may be more stubborn. Middaugh recalls one Chicago artist who painted a bank officer against a light background. It was to hang in a boardroom full of darker portraits, but the artist refused to change it. The company hired another artist to try. "He ruined the portrait," Middaugh says sadly.

Sittings themselves can be boring, but not unbearable. Many portraitists break the sessions into two-hour chunks, and keep up a steady stream of light conversation. Pitney-Bowes CEO and Chairman Fred Allen, who was recently painted by William Draper, found it "very enjoyable." The artist's work doesn't end with the actual sittings, of course. Kinstler estimates that he needs 80 hours to 100 hours to do a portrait, with the subject present for 15 hours or so.

If the time seems a little much for your schedule, or you think the price will raise eyebrows at the next annual meeting, check into a photographed portrait. While it may lack the impact of a paint-

ord Donnelley and portraitist Everett Raymond Kinstler
captains of industry are getting a little more relaxed.

Personal Affairs

ing, a photographic portrait costs less and can be done a lot faster. Bachrach Inc., with offices in several East Coast cities, charges $1,050 for a 24 x 29 picture, and $2,185 for a 40 x 50 shot. Delivery takes about six weeks.

How do the men that made it all possible like themselves to be remembered? The trend is toward more informality. Backgrounds are getting brighter, poses more relaxed. The image of the stern-faced captain of industry shown against a murky background with a watch chain stretched across his protruding vest is a thing of the past. Still, executive portraits remain properly sober. Said Barclay: "They aren't too adventurous. If executives want a freaky picture they can go to Soho."—**Van Wallach**

Funds versus CDs

Quick, what gives you a better return: a money market fund or a bank savings certificate?

Answer: It hardly matters on an annual basis. While banks and money market funds wage their war in newspaper ads, each claiming to give a better deal, the statistics show that over the past 2½ years the spread between the two has seldom been wide enough for the average investor to lose any sleep over. The would-be saver with $10,000 who anxiously awaits the Treasury bill auctions every Monday to see what interest the banks will be paying in the next few days could be lucky. He could time a peak in interest rates, and for the next six months his money would earn handsomely. But what happens when the certificate comes due? It is anyone's guess what the rates will be then, and if he rolls over his certificate right away to avoid any loss of interest, he could be tying up his cash for another six months, conceivably at a rate at the bottom of a cycle.

But the investor who puts his cash in a money market fund at a time when the T bill rate is rising usually will watch his money earn less than a certificate would fetch for a while. There is a lag in the money funds. Yet, when rates start to slide, that lag works for the investor—he is earning at better than the T bill rate.

Let's look at the figures to see exactly what the differences amount to.

From June 2, 1978 through Jan. 2, 1981, the average return on a typical money market fund (Fidelity Daily Income Trust) varied from a low of 8.99% to a high of 12.95% (they are higher now, of course). Meanwhile, savings certificates offered by savings banks (not commercial banks, which paid lower for some months during that period) ranged from 8.87% to 13.31%, when computed on an annual basis.

You could have beaten the money market rate with savings certificates if your timing was right, of course. But not often. Indeed, of 84 consecutive Fridays between June 1978 and Jan. 4, 1980, you would have been better off picking the money fund 77 of those weeks. That assumes you leave your cash in for one year.

Moral: Don't allow the differenc tween interest rates to be the sole minant of whether to put your $1 or so in a money fund or a bank c cate. Your money is fully insured bank, but you normally cannot tou without paying a penalty. In a m fund, you can have access to your m at any time without any interest per but it is not federally insured.

Safe at last

Finding a decent-size safety deposit box in a bank these days is as hard as finding a home that hasn't been robbed. Many people are taking the crime problem into their own hands and buying safes to use at home—in addition to alarm systems. If you are buying a safe for the first time, you'll find more safes than you can shake a crowbar at. Richard Krasilovsky, vice president of Empire Safe Co., in New York, the largest dealer of safes in the Northeast, suggests you ask yourself two questions to narrow the field of choices: First, what are you protecting? Second, how much would you hate to lose it?

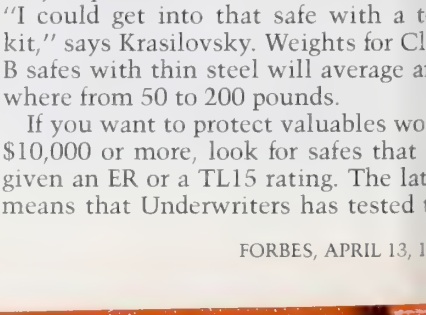
Only select and very expensive safes provide both fire and burglar protection. Safes that are simply fire resistant, usually the size of a bread box or a bit larger, are equipped with a lock and have a layer of fire insulation. But any decent burglar can break into one within minutes.

Burglar-resistant safes, on the other hand, are made with much thicker steel and have more complex locking mechanisms, but give almost no fire protection.

If all you want to protect is important papers, look into a fire-resistant safe. They are generally less expensive than burglar-resistant safes, and you can safely stash things like passports, birth certificates, insurance policies, deeds, wills, etc. If a fire breaks out in your home, the safe's insulation "sweats" to keep the temperature inside the safe low. These safes can provide anywhere from one to two hours of protection from fire. But little from a thief. Says Krasilovsky, "Never put anything worth anything to anyone else" inside a fire-resistant safe. Most fire safes have been tested by Underwriters Laboratories to withstand hundreds of degrees of temperature; the safe will carry a label on its rating. Prices for fire safes range from $175 up, depending upon size. John D. Brush & Co. is the largest manufacturer of fire safes. Most locksmiths or hardware stores carry them or can order one for you.

With burglar-resistant safes, the more you pay, the more protection you'll have. Like fire safes, burglar models are rated by Underwriters Laboratories or the Insurance Services Office. They range in price from a minimum-security safe (Class B) for around $275 to the r mum (Class G) for $15,000 or r They can be as small as a lunch pail big as a refrigerator. Most burglar-r tant safes are not sold in your local l ware store. They are sold through pendent or agent dealerships. C your telephone directory.

In selecting a burglar-resistant Krasilovsky suggests that first yo down and estimate how much it w cost to replace the valuables you in putting in it. Use that sum to gaug type of safe you need. If your total co to under $1,000, the minimum stre you want is a safe with at least a inch steel door, and with quarter- steel on all sides. Cost: $300 or so. I ble those specifications if your worth of valuables is closer to $10, You want a one-inch steel door with inch steel sides. Cost: $425 and up.



The combination lock should mounted on a drill-resistant steel pl And the safe should have one or m relocking devices—extra door locks t snap into place if the combination loc under "intense attack." Avoid safes w only a quarter-inch of steel on the d "I could get into that safe with a t kit," says Krasilovsky. Weights for C B safes with thin steel will average a where from 50 to 200 pounds.

If you want to protect valuables wo $10,000 or more, look for safes that given an ER or a TL15 rating. The lat means that Underwriters has tested

TWA unseats the competition.

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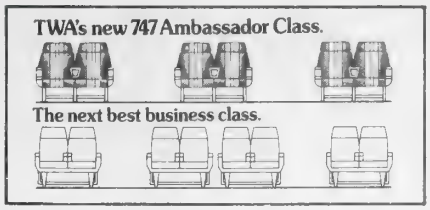
TWA's new 747 Ambassador Class℠ to Europe. Wider seats and more legroom than any other airline.



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You're going to like us TWA

Personal Affairs

safe under extreme conditions to withstand an onslaught by special or sophisticated tools for at least 15 minutes—for each tool.

For valuables over $100,000 a Class G or TRTL-30 is an even higher rated home safe. That means that a burglar would have to come equipped with a truckload of tools, including a cutting torch, sledgehammer, crowbar and carbide-tip drills and work at least half an hour to crack open the safe. Weights for these safes range from 325 to over 6,000 pounds. Prices for the Class ER and G safes start at $750 and go as high as $15,000.

Obviously, the longer it takes a burglar to size up and enter a safe, the more likely he is to give up on it. There are plenty of homeowners with simple fire-resistant safes, or no safes at all. But note: There are no burglar-proof safes. With time and tools, any safe will succumb. And, a gun-wielding robber who knows you have a safe can usually persuade you to open it.

Some of the better burglar-resistant safemakers include leader Diebold, Mosler, Chubb Industries, Tann and Meilink. Most work through dealerships in every major city. In addition, some dealers also manufacture their own brands.

After deciding which safe you need, the question arises of where to install it. There are three different types: floor, wall and freestanding. Floor safes are made to be cemented or anchored onto your basement floor. Because they are placed below a fire line, they also provide an amount of fire protection, too. Wall safes are set in concrete or stone walls—not in sheet rock, however. There are many wall models about 15 x 19 x 9 inches in interior size.

Freestanding safes, however, are generally much larger and weigh over 400 pounds. These are designed to be bolted to the floor from inside the safe. The cost to install all three types of safes will range anywhere from a few hundred dollars to a maximum of $1,000, depending on your safe and home. Some safe companies, like Diebold, will send their agents to your home to advise you where to place it. Bob Graham, commercial sales manager with Diebold, suggests you make sure you know who is delivering the safe, and that they take precautions such as delivering the safe disguised in an oven or clothes-washer box.

Where do you put your safe? People have installed them in the usual places such as closets, cupboards and inside end tables. But if you are truly serious, a Diebold official suggests you consult with an engineer or architect. A good safe dealer can recommend one. Safes can be hidden in sculptures, giant planters, cabinets, rubbish cans and boxes in the attic or basement with other storage boxes piled on.

Insurance breaks for valuables stored in your safe, however, are nonexistent. None of the largest major homeowner insurance carriers like Allstate, State Farm or the Hartford reduces premiums on homeowners' policies for safes. However, you do receive discounts for burglar alarm systems. And you may be required to buy a safe if you want floaters on special items.

As you might expect, there has been a sharp upsurge in demand for home safes recently, with some manufacturers reporting sales increases of 40% or more in the last year alone, according to an official at Intercontinental Security Products.—**Gerald Odening**

Music festivals

It's not too early to begin planning some summer travel, especially if you're interested in taking in a music festival along the way. They have never been more popular or numerous.

Many of the festivals are now big business. Washington's Wolf Trap, for example, last year drew over 395,000 for its music events, and has an annual budget of over $5 million. With popularity, though, has also come predictability: The major orchestra festivals lean heavily on the sure-fire concert favorites, with results that depend on the temperament of the conductor.

But in the past decade the number of concerts by soloists and smaller ensembles—chamber music—has burgeoned. In a tradition begun by Vermont's Marlboro Festival in the 1950s, many of the "festivals" began more as escapes for busy soloists and students, who wanted to get away for a summer and play for enjoyment. As a result, chamber-music festivals are more likely to program new or neglected music, and can also give their smaller audiences a chance to feel a little closer to the performers.

But even for those to whom the music is secondary, all of the festivals listed below provide a chance for walking through beautiful country, lounging on the grass or picnicking—sometimes done on a grand scale.

As for seating, each festival is a little different. At some, all seats are reserved. Others offer both reserved seats (under a shelter, usually) and lower-priced general admissions to the lawn. (Keep in mind that lawn seats may offer poor views of the stage, and you'll often be dependent on a sound system.) When you write for ticket information, also ask abou accommodations. Most festivals ticularly the smaller ones, have l available, or can at least refer yo local chamber of commerce.

Northeast

Tanglewood (Lenox, Mass., 3½ north of New York City), in the w hills of western Massachusetts, consistently the best of the major vals. Three Boston Symphony co on weekends, other student cor too. Accommodations nearby fill u try Albany, N.Y. or Holyoke, Ma desperate. Sunday afternoon concer very crowded. June 26-Aug. 23. (c/o phony Hall, 301 Massachusetts Boston, Mass. 02115.)

In nearby Great Barrington, Mas *ton Magna* performs six concerts of and 18th-century music with peri struments in a small Gothic church. July 3-18. (65 West 83rd St., York, N.Y. 10024.)

Saratoga (Saratoga Springs, N.Y. hours north of New York City) fea Philadelphia Orchestra concerts (st all-time favorites). Also, the New City Ballet and some standard events. June 26-Aug. 29. (Saratoga forming Arts Center, Saratoga Spr N.Y. 12866.)

Marlboro (Marlboro, Vt., just nor Massachusetts border) began as a c ber-music retreat for soloists, majo chestral players and students. Con still consist of whatever the group of so decides to work up when they arri June. Small but famous, and tickets sel fast. June 21-Aug. 9. (135 South 18th Philadelphia, Penna. 19103.)

Two smaller series make use of la private estates-turned-museums. *Concerts in Norfolk* (Norfolk, Conn the northwest corner of the state) o uncrowded chamber music by major ists, this summer including the T Quartet. June 19-July 31. (Box 21 Yale Station, New Haven, Conn. 065 *Caramoor* (Katonah, N.Y., one hour n of New York City) has both chamber small-orchestra concerts. June 27-A 23. (Caramoor Center, Katonah, 10536.)

Less well known is the *Waterloo M Festival* (Stanhope, N.J., one hour wes New York), including unusually good dent-orchestra concerts conducted Gerard Schwarz and held in a rest early American town. June 7-Aug. (Waterloo Village, Stanhope, N.J. 078

Chautauqua (Chautauqua, N.Y., tween Buffalo, N.Y. and Erie, Pen once the home of the famous rural-e cation movement, now holds a sum of chamber-music and orchestra c certs, lectures and recitals in a Victo lakeside town. The town opens a w earlier than the concert performa July 4-Aug. 22. (Chautauqua Institut Chautauqua, N.Y. 14722.)

festival in Saratoga, Calif.
erts are no longer only for the gentry.

Midwest

nia (Highland Park, Ill., north of go) has the Chicago Symphony, n finds it hard to have an off night. ams are sometimes innovative, and ial pre-concert recitals are com- June 26-Aug. 29. (22 West Monroe Chicago, Ill. 60603.) Meanwhile, town at *Grant Park*, the respectable Park Symphony plays four outdoor rts a week—for free. (Grant Park erts, 425 East McFetridge Dr., Chi- Ill. 60605.)

Blossom Music Center (Cuyahoga Ohio, halfway between Cleveland kron) has the Cleveland Orchestra e summer season. June 25-Aug. 30. rance Hall, 11001 Euclid Ave., land, Ohio, 44106.)

South

leto (Charleston, S.C.) began four ago as a spinoff from the presti- festival in Spoleto, Italy. Chamber c, dance, opera, drama, lectures and ls all over town, from 11 in the ing until well after dark. May 22- 7. (Spoleto Festival U.S.A., P.O. Box Charleston, S.C. 29402.)

e festival in *Round Top* (Round Top, s, two hours west of Houston) began ears ago in a town with a population 4. Its cow-pasture location now s people in from all over. Outdoor rmances by top younger performers. 5-July 5. (Festival Institute, P.O. Box ound Top, Tex. 78954.)

lf Trap (Vienna, Va., 30 minutes out- Washington) has National Sympho- oncerts, the New York City Opera pops events. Not as distinguished ically as Tanglewood, but with star rmers and a beautiful park. June 1- 7. (Box Office, 1624 Trap Road, na, Va. 22180.)

West

en (Aspen, Colo.), with 5 orches- 800 of the country's best music stu- s, and dozens of concerts and lec- s, is pretty much music saturation. The surrounding mountains need no recommendation. June 26-Aug. 23. (1860 Broadway, Suite 401, New York, N.Y. 10023.)

Santa Fe is home to not one but two major festivals, both indoors but famous for high quality and unusually well-chosen repertoire. The *Santa Fe Chamber Music Festival* is a regular group of top younger performers in five concerts a week. July 12-Aug. 17 (with a week's tour to Seattle Aug. 19-24, and to New York Aug. 29-Sept. 3). (P.O. Box 853, Santa Fe, N.M. 87501.) Over at the *Santa Fe Opera*, five operas are performed by young American singers in top-flight productions. July 3-Aug. 29. (P.O. Box 2408, Santa Fe, N.M. 87501.) Accommodations in town are scarce in July and August, and it's wise to book rooms before committing yourself to tickets.

In Los Angeles, the ever-popular *Hollywood Bowl* continues with Los Angeles Philharmonic concerts, and the ones conducted by music director Carlo Maria Giulini are worth special effort to hear. (Los Angeles Philharmonic, 135 N. Grand Ave., Los Angeles, Calif. 90012.)

Two other California series are on a smaller scale. *San Luis Obispo* (250 miles north of Los Angeles) holds an annual Mozart Festival. Aug. 3-9. (P.O. Box 311 San Luis Obispo, Calif. 93406.) South of San Francisco in the Santa Clara Valley, *Music at the Vineyards* holds a small number of concerts in the courtyard of the original Paul Masson winery. Tickets, however, go fast. June 6-Sept. 20. (P.O. Box 97, Saratoga, Calif. 95070.)

Chamber Music Northwest (Portland, Ore.) holds 17 concerts on the campus of Reed College. Performers are generally young but nationally known, and the atmosphere is informal. June 22-July 30. (P.O. Box 751, Portland, Ore. 97207.)

Lastly, in Seattle, what must be one of the grandest schemes for a summer festival ever: two complete, staged productions of Richard Wagner's four-opera *Ring* cycle, done once in English and once in German. The brainstorm of a Wagner devotee, the festival is attended by fellow fanatics from all over the world. July 18-Aug. 2. (Seattle Opera, P.O. Box 9248, Seattle, Wash. 98109.)

For an uncritical listing of a hundred or so other festivals around the country, try *A Guide to Music Festivals in America* by Carol Price Rabin (Berkshire Traveller Press, $4.95).—**Thomas Baker**

Loose Ends

The best executive positions aren't exactly going begging these days, according to one executive recruiter who's not afraid to point out naked emperors. (Most headhunters insist executive demand is always up—meaning their business is always booming.)

O. William Battalia, of Battalia & Associates, reports that 51% of industries recently surveyed are reducing executive hiring. Another 22% are not planning any outside recruitment, and 22% are planning no change. Only 5% of the companies contacted plan to expand their hiring.

But if you are in the job market, Battalia has this suggestion: Consider working in places not noted for their quality of life. "They could offer excellent opportunities for career growth," he says.

According to Battalia, executives commonly cite Atlanta, Boston and San Francisco as top places to work. But executive openings there are scarce. Least attractive cities, according to surveys, are New York, Chicago, Cleveland, Los Angeles, Detroit, Buffalo, Pittsburgh and Houston—but that's where the jobs can be. Battalia alone placed over 20 executives in these cities last year, at salaries of $40,000 to over $100,000 annually.

The Arabian peninsula, which has the greatest concentration of wealth in the world today, consists of eight distinct nations, ranging from the richest to the poorest in the world. In the 1980s, the best business prospects will not be in Saudi Arabia, but in the smaller Arab nations beyond its borders. It is best to avoid the subject of women when doing business in the Arab world. Islam has an influence over all aspects of life—social, political, legal and commercial. In friendly relations with an Arab, expect physical closeness. These are but a few of the nuggets from *A Guide to Doing Business on the Arabian Peninsula*, a new book by Quentin W. Fleming, available through the American Management Associations for $29.95. Invaluable for the first-time business visitor to this important part of the world.

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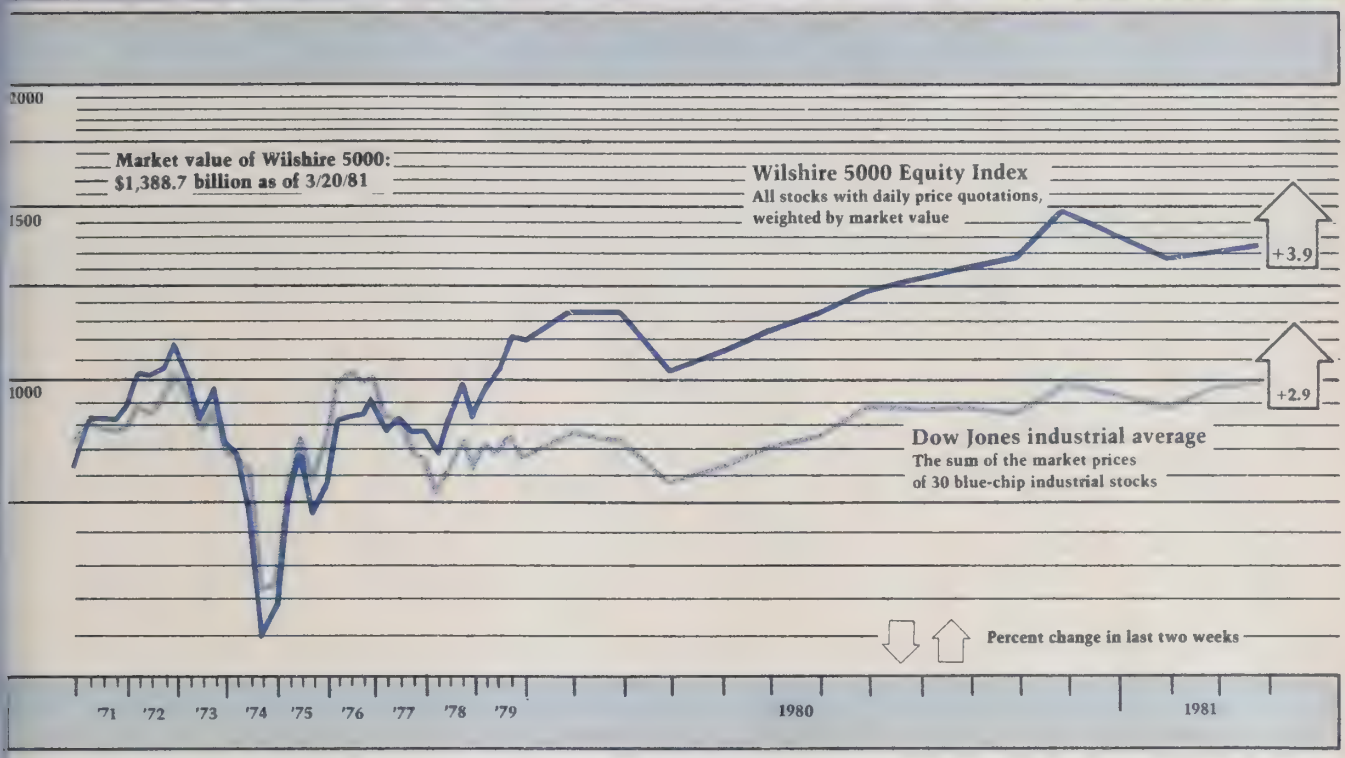


Pinch me. I've been here before. If investors are feeling a sense of déjà vu, no wonder.

Look at the stock performance measured in the table at the bottom of this page. The companies that are today's market leaders are the same high-growth, high-P/E stocks that fueled last year's runup. Until now, the strong performers of 1981 had been companies that missed out on the 1980 boom—but clearly that is no longer the case.

The broad indexes tracked in the other tables underline this point: As was the case during most of last year, the market's real strength is once again coming from the NASDAQ and ASE, with the Dow trailing the pack. In much of the time since January, of course, the Dow has played catch-up, and outpaced the competition. That explains why it is bumping new highs while the Wilshire is still well below its November peak.

What does it all mean? Don't be misled by that magic 1000 figure for the Dow. The market as a whole is a long way from confirming its strength, and that is hardly a bullish sign. What's more, there is still no solid indication of new leadership. Some faded stars, however, are twinkling again—perhaps for the last time.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	6.6	6.1	6.4	6.7	7.3
in last 52 weeks	33.0	26.4	32.4	39.4	48.6

Stock performance based on five key investor yardsticks

Percent change	Volatility *		P/E Multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	9.6	5.2	6.5	4.9	4.6	7.4	8.7	6.4	7.9	6.2
in last 52 weeks	68.0	22.6	67.4	30.2	18.8	44.0	53.3	34.1	38.0	42.3

* A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
† A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

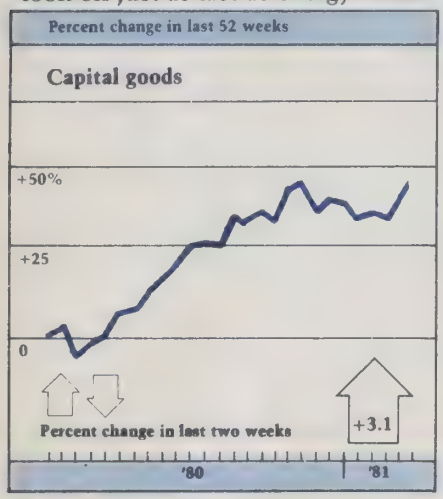
Note: All data for periods ending 3/20/81. Prepared by Wilshire Associates, Santa Monica, Calif.

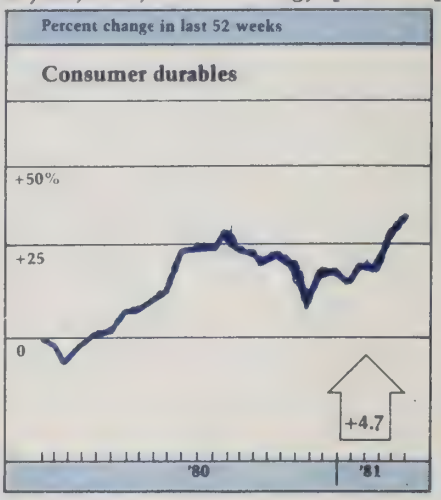
The higher they soar, the faster they fall. If you don't believe that, check the performance of energy stocks.

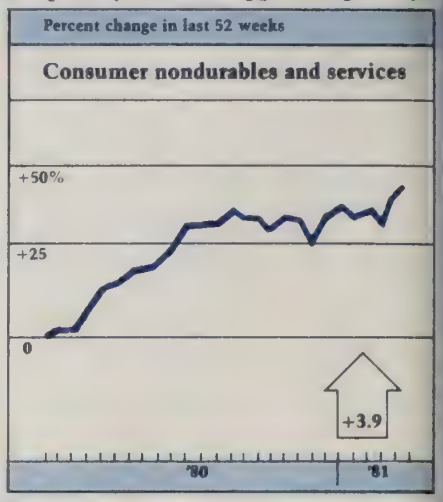
Despite last fall's flashy runup, the group is now barely 25% ahead for the year. Investors in all other sectors except utilities have fared better over the full 12 months—even though they got less ride for their money.

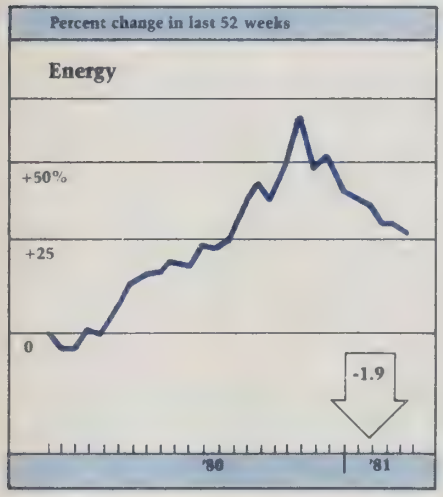
Compare that with the performance of transportation companies, led by the resource-rich rails. Their stocks took off just as fast as energy shares last year; now, after faltering briefly, they are leading the market and nearing their former highs. What's more appealing about a railroad with oil and coal than an oil company with oil and coal? Wall Street judges, it never explains.

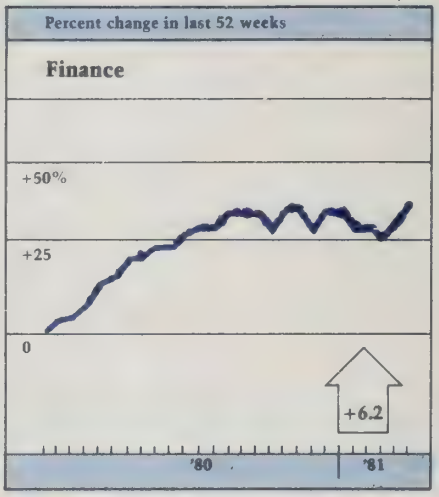
Now, of course, there are several candidates for new leadership. Both consumer groups have broken old highs and are moving solidly ahead. The same for finance and raw materials. These gains are not as spectacular as last year's energy spurt—so perhaps they won't disappear as quickly.

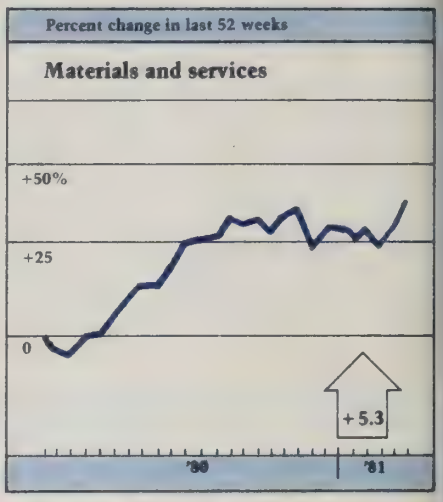


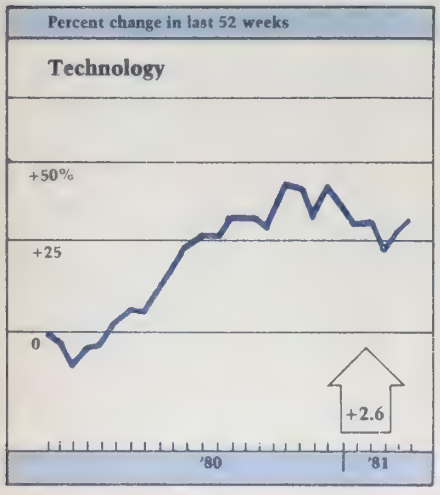


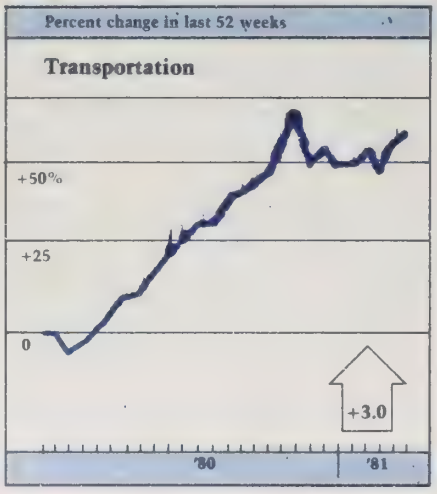


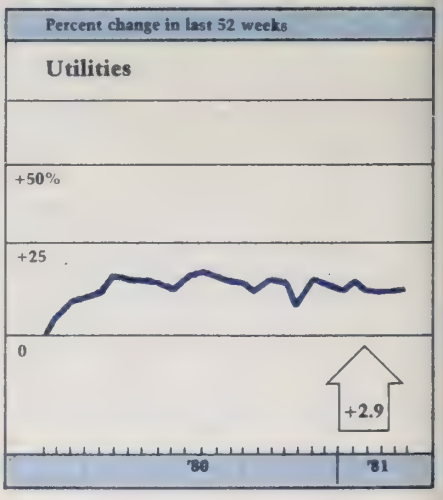












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The mortgage market? It's almost dead. And sellers cementing deals with "creative financing" are really cutting prices.

HOUSES ON THE BLOCK

By Ben Weberman

YES, THE MORTGAGE market is a mess. Lenders are almost nonexistent, and those that still have funds are anything but eager to make any more traditional loans. If they had their way, the 30-year fixed-rate mortgage would die a quick death.

What the financial community wants—or thinks it wants—is a mortgage with interest rates that move up or down in line with an indicator like the cost of living or the cost of funding mortgage credit. I doubt, however, if this attitude will prevail much beyond the time when these same lenders see rates heading down. Then they'll be working overtime to convince the public—that's you and me—to borrow long-term at the prevailing high rates.

The Comptroller of the Currency has given advocates of variable rate mortgages strong ammunition. New guidelines permit creation of mortgages by national banks with adjustments of as much as 1% every six months. That is far greater latitude than is now permitted, and other regulators will probably follow the Comptroller's lead. Will the public accept this? Probably not, except in regions where all lenders offer *only* variable rate instruments and home buyers have little choice.

In any case, discussions about mortgages are almost academic today. Few houses change hands with rates at around 15% and as much as 4% of a loan's face value payable immediately. This charge is called "points." Think of it, a $100,000 mortgage requires an up-front cash outlay of $4,000 just to pad the pocket of the lender. This comes on top of roughly $15,000 in first-year interest.

Add up the numbers. Today, 20% down payments are the rule—$25,000 on a $125,000 home. Throw in the $4,000 in points for a $100,000 loan. Don't forget fees for title insurance, lawyers and real estate brokers—the buyer pays all. The down payment and total first year's charges amount to nearly 40% of the selling price.

One result of this lending slowdown is that prices of homes in places like Denver and Phoenix have actually declined. Elsewhere, notably in southern Florida, Houston-Dallas and Southern California they are holding at levels set last October. Homeowners, in fact, are now finding that a house is not a perfect hedge against inflation. That myth, of course, will die slowly. It will take time for potential sellers to realize that they are paying carrying charges without an offsetting increase in the market value of their property.

What the statistics don't show is that a large proportion of the homes actually sold moved because of "creative financing." That's real estate broker terminology for the seller's taking a price cut without realizing it. One technique is for a homeowner to throw in the existing low-rate mortgage and take a second mortgage for 13%. Since second mortgage rates are closer to 20% than 13%, the mortgage is worth roughly one-fifth less than the face amount. That is a subsidy by the seller.

Variations among first mortgages, second mortgages and cash are considerable. But the aim is to bring the overall mortgage rate on the first and second trusts to a level that the buyer can afford. Today some lenders will offer a rate below the going level if the borrower will take a variable-rate mortgage. In New York, for example, conventional mortgages go for 15½% with a 3-point cash payment. Variable-rate mortgages can be written with a 15% rate and only a one-half point payment. Renegotiable rate mortgages, agreements that requ new terms after three to five yea carry a rate as low as 14¾%.

The housing slump, of course, w have a *positive* effect on bond yiel later this year. Because the Consum Price Index includes the new-hon prices and mortgage costs, CPI-me sured inflation has been running much as 4% above the "underlyin rate. Hold housing prices steady, bri down the mortgage rate and the r ported number could fall as much 3% by year-end. That's the judgme of Federal Reserve Board Chairma Paul Volcker. Cut CPI inflation to 8 or so for a prolonged period and bon yields will fall.

Those lower mortgage rates an lower bond yields are in line with th pattern of peaking of long-term rat by May or June that I have been pr dicting since the start of the yea Along with that will come a busines slowdown, a shrinkage of credit de mands and a broad cooling of infla tionary pressures.

That means anyone who is no pressed to buy a home now shoul wait. Prices are no longer soaring, an mortgage rates will come down b summer. Sellers who want to mov their homes should keep the potentia costs of creativity in mind.

Investors can benefit from th GNMA 13% pass-through certifi cates. These now trade at 92½ t yield 14.25% on the assumption of 12-year average life for the underlyin mortgage pool. That means that hal the pool should be paid off in 12 year and half beyond. By contrast, a 10 year, 13% U.S. Treasury note sells a 101½ to yield 12.75%, and a 15-year 12⅝% U.S. Treasury note sells a 97½ to yield 13%.

Thus the Ginnie Maes, guaranteed by the full faith and credit of the U.S. government, yield about 1.25% to 1.50% more than direct federal obligations. You should know, of course, that interest on the GNMAs is subject to state income taxes while interest on Treasury debt is exempt.

Long-term interest rates will peak sometime before June. I can't be more specific until I know how Congress will react to the Reagan Administration's requests for spending and tax cuts. Still, I recommend that you confine purchases to securities due in five years. These hold minimal market risk if inflation does not cool and if Congress gets balky with the President. If you're a bit more venturesome, buy a few long-term Treasuries and GNMAs. ■

Ben Weberman is economics editor of FORBES *magazine.*

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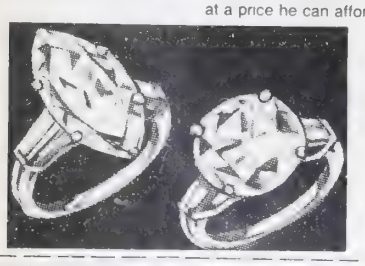

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Stock Comment

When the Dow hit 1000 again, was it showing confidence in the Reagan program—or lack of confidence?

THE 1000 BARRIER

By Heinz H. Biel

THE DIRE predictions of Joe Granville notwithstanding, the Dow Jones industrials once again managed to cross that elusive 1000 line. The DJI has done so any number of times before, beginning more than 15 years ago, but it fell back each and every time. It has been a frustrating experience for the faithful watchers of the DJI, enough to make even a hardened market analyst superstitious.

Will it be different this time? Perhaps, because this latest effort comes at a time when the general market is in a comparatively sober mood. It lacks the symptoms of overheating that were so worrisome last year. The market for new stock issues, for instance, while still very lively, does not have the ardor it had in 1980, when people clamored to get aboard, regardless of price or merit.

I am not talking about penny stocks but about major offerings made by prestigious underwriting firms. When Genentech came out last October at 35, it jumped immediately to as high as 89, despite a rather forbidding prospectus. Apple Computer, another "hot" one, rose from an offering price of 22 to 36 in December. Expectations were equally high for Cetus Corp., like Genentech a genetic engineering company, especially because it has such major shareholders as Standard Oil of California, Standard Oil (Indiana) and National Distillers & Chemical. Yet, when Cetus came out last month at 23, it never managed to rise to a significant premium and then declined below 20. The high-flying Genentech and Apple also were recently available near or even below their original offering prices.

This waning enthusiasm for hot new issues is all to the good. The present market seems to reflect serious investment buying rather than blind speculation.

I am not quite sure, however, whether this is an expression of confidence in the eventual success of the Reagan economic program—or the lack of it.

There is an astounding eagerness to get rid of surplus dollars in a hurry, regardless of cost. The cash-rich oil companies are making bids to take over natural resources companies at prices that amaze the analyst. Copper, lead, molybdenum and coal have suddenly attained a glamour similar to that of gold a year or so ago. Of course, when you are as wealthy as Standard Oil of California, Seagram or Standard Oil of Ohio, you don't quibble over price.

If AMAX, St. Joe Minerals and Kennecott are worth that much money, then most of the other companies that have yet to be wooed will have to be considered dirt cheap. Maybe they are, but to whom? Sohio has the money *and the time* to make Kennecott a worthwhile investment, even at $62 a share. An investor, including the large institutions, can't figure that way. If U.S. Steel, selling at barely one-half its probably understated book value, were valued like a Kennecott, it would be a bargain at 31. But is it? The company is just too big to be taken over, and the stock will have to be valued on realities and not on remote potentialities.

We have to live with these realities, and they are not always pleasant. Just look at International Harvester, for instance. And there are hundreds of companies that are having a rough time making a living, not having a fairy godmother to foot the bills.

There is now more than $100 billion sitting in the money funds alone and much more in T bills and bank CDs. A good part of that may be avail-

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

ible for investment in stocks, especially if yields continue to decline, as they may, at least for a while. Although most investment-grade stocks are still reasonably priced, the recent advance has tilted the all-important risk-reward ratio somewhat toward the negative side. If you feel uncomfortable holding too few stocks and with too much cash lying around "awaiting investment," you probably should change the emphasis somewhat. But if you buy stocks, don't just look at earnings and dividend projections. The soundness of the balance sheet is equally important.

The apparent predilection of the money-rich oil companies to diversify and invest in other natural resources industries makes one wonder whether timber may not be next. The big forest products companies, of course, are very big, but takeovers don't necessarily require all cash. They can be done with paper, too (no pun intended). The industry is quite cyclical, to be sure, but copper is even worse in that respect. Right now it is also not as profitable as it should be to achieve an optimum return on timberland. The reason for this, I understand, is the pricing of timber sales from federal land by the U.S. Forest Service, which is below the true cost of proper forest management. Nevertheless, this need not be a permanent problem. And timber is the only replenishable natural resource, which is certainly not the case with oil or metals. Except for Brascan's nibble at Scott Paper, I have no knowledge that takeover thoughts are in the backs of the minds of potential acquisitors, but the tree-growing business does have excellent inflation-hedge characteristics. Among the companies deserving consideration are *International Paper* (50), *Weyerhaeuser* (39), *Boise Cascade* (42) and *Crown Zellerbach* (50).

Who would think of a railroad as a forest products company? Or a diversified natural resources company? Yet, *Burlington Northern* (62) is not only the longest railroad in the U.S., but it also owns 1.5 million acres of timberland in addition to its huge coal reserves. Forest products are not just a sideline for BNI. In 1979 (the latest year for which published figures are available) forest products contributed a high percentage of income, more than the combined total of coal and oil. Burlington Northern is more speculative than the companies mentioned before because of the leverage inherent in railroad operations, but it has distinct long-range attraction. ■

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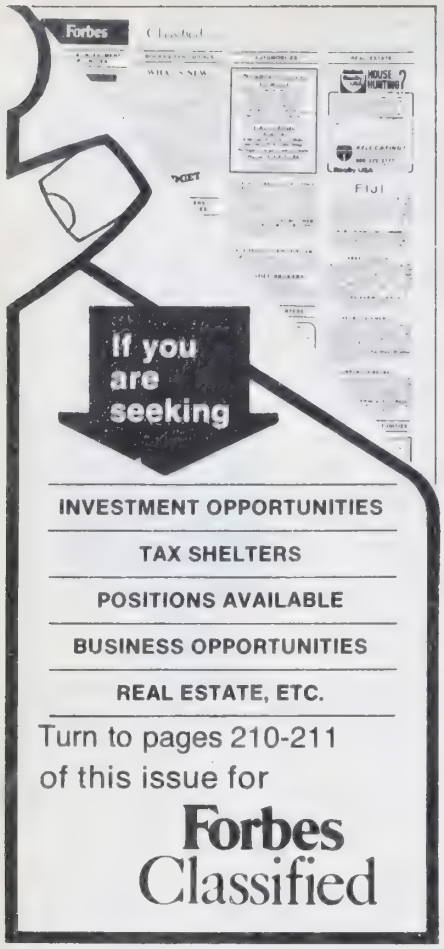

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If you find that your portfolio contains some distinctly ungolden oldies, consider doing a bit of spring housecleaning.

YESTERDAY STOCKS

By Ann C. Brown

LAST WEEK I heard that a three-bedroom, three-bathroom cooperative apartment in the building adjacent to mine had gone on the market for $750,000. About the same time, I saw advertised a seven-bedroom "country estate," complete with swimming pool, gymnasium, horse barn, trout stream (with waterfall), on 27 acres, only an hour away from the city. Asking price—$335,000. Sign of the times. A big house these days is more of a liability than an asset—an ivy-covered white elephant built when both labor and energy were cheap.

Today, with the birthrate down to 1.8 children per family, who needs seven bedrooms? Who will clean them, vacuum the pool, look after the horses and mow the beautifully landscaped acreage? Even the seclusion is a drawback, an open invitation to burglary or worse. The costs of heating and cooling, insurance, taxes and other maintenance must be staggering. I wish the seller luck in disposing of a "yesterday" house.

While you may be living in a snug, highly salable piece of real estate, I suggest you walk to your desk or wherever and dig out the latest statement of your securities holdings. For a moment forget any low-interest, long-maturity bonds, which are a disaster area unless you just purchased them at a whopping discount. Concentrate on the equities and see if you are holding any yesterday stocks—shares in companies heavily dependent on no-longer-cheap labor or increasingly expensive energy. Include, too, those companies that are getting battered by foreign competition and companies that are reeling under a load of government regulations, which are likely to remain, in spite of Reagan's intentions to get the bureaucracy out of business. Laws have a nasty way of staying on the books.

If you find that your portfolio contains some distinctly ungolden oldies that you've been meaning to sell once the price goes back up (which it never seems to do) or that were once great growers but have plateaued, consider doing a bit of spring housecleaning. More often than not my motto of "when in doubt—out" has proven successful over the years. In fact, perhaps the greatest help I have been to my clients is to persuade them to face up to their losses and do something about them. It's hard to admit you made a mistake. It's downright dumb to sit with it when there are better opportunities around.

One of the best ways for you to approach your existing portfolio is to pretend that someone gave you $100,000 to invest in stocks. Would you buy the stocks you now own? If you wouldn't and if there are no good reasons for keeping them, like waiting for your gains to go long term, letting your heirs pay estate taxes instead of your paying capital gains taxes or using appreciated securities as gifts, then earmark those stocks for sale. Use the proceeds to buy "tomorrow" stocks—companies whose sales and earnings should grow at an above-average rate due to new technology or changing demographics or, as in the case of oil, gas and other natural resources, because of diminishing supply and expanding demand.

Three companies that should do especially well over the next few years are *Capital Cities Communications* (67), *Time Inc.* (67) and *Multimedia* (32). The main attraction these companies have is their recent involvement in cable television, which is not only here to stay but here to stay in an

Ann C. Brown is executive vice president of the New York investment firm of Melhado, Flynn & Associates.

even bigger way than I think most people realize. As the cost of taking people to things increases, those businesses that bring things to people cheaply and efficiently should have a very profitable future.

Last year, Capital Cities Communications agreed to purchase Cablecom-General Inc. from a subsidiary of General Tire & Rubber. While the deal has yet to be finalized (probably in May), Capital Cities could pick up around 225,000 cable subscribers, making it the 14th-largest multiple-system-operation in the country. The company has a talented top management and an enviable earnings record, reporting $5.38 per share for 1980, up from $4.68 in 1979. This year $6.25 seems possible.

Time Inc. entered the cable TV arena in a big way a few years back with the purchase of American Television & Communications Corp. Today, Time has an estimated 1.3 million subscribers, and its Home Box Office claims to have about 5 million extra-pay cable customers. Last year's earnings were about even with those of the preceding year due to startup costs of its new scientific magazine, a general fall in the forest products operations and the poor performance in the mail-order book business. However, it seems that most of the disappointing divisions could begin to show profit recovery by the fourth quarter, and earnings for 1981 are estimated at $5.75 per share. Things are really expected to get going in 1982 and a preliminary estimate is for a sizable earnings jump to $8.50 or so.

Less well-known is Multimedia, which is traded over-the-counter. Multimedia was formed in 1968 by the merger of three privately held companies, and today has grown into a diversified communications company with newspapers, TV and radio stations, cable TV systems and a television program production and syndication company (the *Phil Donahue Show*, among others).

Multimedia was a relative latecomer to the cable business, having started its acquisitions program early last year. Since then, the company has been actively bidding on several franchise applications and has had two recent successes. While building and expanding the cable systems may keep current earnings from rising rapidly, the company should be able to continue to invest in the future and maintain a 15% earnings-per-share growth rate. This year looks like $2.50 per share, *vs.* $2.15 for 1980. ■

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CARIBOU ENERGY, INC. O

DENVER, March 5—Caribou Energy Inc. plans a substantial increase in its drilling activity this year, Louis M. Perry, president, said at the company's annual meeting today.

Perry told Caribou shareholders, gathered at the Brown Palace Hotel, that the company is raising money for a 10-well drilling program to start in April, and plans to participate in an additional 15 to 20 wells in 1981. These wells will include wildcats in Kansas and Oklahoma.

In the 10-well program, Perry said, Caribou will have a 25 percent interest, carried to the casing point.

Currently, Caribou is drilling the last two wells in a five-well exploration program that started in December 1980. The first three wells were dry. The fourth well is in Kimball County, Nebraska, near Sloss Field, which has produced some 16 million barrels of oil. The fifth well is in Banner County, Nebraska, in an abandoned portion of Lovercheck Field, which Perry feels may have been inadequately tested by others.

Perry said Caribou's recent gas discovery in Logan County, Colorado, has strong bottom-hole pressure, indicating that the well has tapped a new reservoir. He said the company is negotiating with a gas transmission firm for a pipeline hookup.

Around the well is a 1,520-acre lease block in which Caribou owns 26 percent of the working interest. Perry said up to eight development wells could be drilled on the acreage.

Since the company was formed two years ago, its gross acreage of leases has more than tripled, Perry pointed out. Caribou now owns interests in 25,000 acres in five states—Colorado, Wyoming, Nebraska, Utah and South Dakota. Perry said the company has 32 prospects that are ready for exploration.

Perry told shareholders that Caribou had a net loss of $39,056 for its first quarter ended Dec. 31, 1980. This compares with a profit of $5,016 a year earlier. Revenues, mainly interest income, were $38,206, down from $50,307. Shares outstanding totaled 30.4 million.

All of Caribou's directors were re-elected at the annual meeting.

Common stock of Caribou Energy is traded on the national Over-The-Counter market; NASDAQ symbol CBOU.

(Contact: Sandra Perry, Shareholder Relations, Caribou Energy, Inc., 518 17th St., Denver, CO 80202. Phone: 303-629-5200.)

NUCLEAR MEDICAL SYSTEMS, INC. O

(NMSI) Newport Beach, CA. NMS develops and manufactures high technology medical immunodiagnostic test kits to aid in the diagnosis of cancers, early heart attacks, pregnancy disorders, drug sensitivities, fetal distress, thyroid problems, birth defects, etc.

Despite expansion and the undertaking of new programs, NMS has been profitable with a strong financial, high liquidity and no debts. The company issued stock dividends of 10% in 1978, 25% and 50% in 1980.

Its developments include a blood test kit (AFP) to screen expectant mothers for severe birth defects and thyroglobulin for thyroid cancer prognosis.

NMS owns 30% of Immutron Inc. (O) which is in immuno instrumentation and kits thereof, and 21% of Genetic Replication, which is in cloning, interferon and commercial utilization of genetic engineering.

Market makers: WEDB, UHIC, WHCC, TMSI, EHUT, DBUR, BHSS, KPCO, DEAN, MRKS, BCCC, TOWR.

(Contact: Joseph Irani, President, Nuclear Medical Systems, Inc., 1533 Monrovia Ave., Newport Beach, CA 92663, 714-645-2111.)

SIMMONDS PRECISION PRODUCTS, INC. (NYSE)

(SP) Tarrytown, New York—Simmonds Precision designs and manufactures electronic components and computer-based systems for aerospace and industrial applications, including fuel management, engine ignition and primary flight control actuation systems. The company's products are used on most major commercial and military aircraft programs. In 1980, the company discontinued its unprofitable product investments, eliminating a substantial drain on the basic earnings power of the corporation. The write-off focuses future efforts on the strength of the company's traditional aerospace and industrial operations. Backlog of the company's core aerospace and industrial business at 1980 year end was $130.4 million, up from $114.7 million at December 31, 1979.

	For The 12 Months Ended December 31	
Continuing Operations:	**1980**	1979
Sales	**$131,879,000**	$107,632,000
Income Before Taxes	**11,900,000**	13,357,000
Income From Continuing Operations	**8,465,000**	7,474,000
Discontinued Operations (net of taxes):		
Loss From Operations	**(2,856,000)**	(1,220,000)
Loss On Disposal	**(5,130,000)**	———
Net Income	**479,000**	6,254,000
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Continuing Operations	**$1.74**	$1 61
Discontinued Operations	**(1.64)**	(.26)
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Rumor has it that those wonderful folks who loved Avon Products at 65 times earnings are about to bad-mouth the oils.

A CLASSIC OVERREACTION

By David Dreman

PERHAPS the most predictable sound on Wall Street is that of the herd, stampeding back and forth according to the latest fads and fashions. As our studies over four decades show, buying precisely the stocks that the market is most down on, as measured by their price/earnings ratios, wins with amazing consistency. Go where the herd isn't if you want the best pasture.

Okay, but a number of savvy investors have posed the same question to me: How do you separate companies that the market is temporarily disenchanted with from those that are in their death throes?

It's not hard if you use some good screening rules. The most important is to make sure that the company has the financial resources to weather a period of rough sailing—a strong current position and a conservative debt structure. This will eliminate the W.T. Grants, Chryslers and others of that genre.

A second rule is to avoid companies at peak earnings that are on the brink of a free-fall. A Ford at 4 times earnings several years ago was no bargain, nor was an International Harvester at 3 times. These situations are not always easy to spot, but there are always enough low P/E stocks around that you can pick and choose.

Keeping these two rules in mind, there are numerous opportunities to take advantage of temporary overreactions. One classic example was Eastman Kodak. Analyst consensus on Kodak was deep black early last year. As the bunkering Hunts drove the price of silver toward $50 an ounce, the stock fell from a high of 70 to the low 40s. Expert opinion at the time reasoned that sky-high silver prices were obviously here to stay, which meant that amateur photography would drastically decline.

Not surprisingly, this proved to be a major overreaction. With a well-diversified business mix, Kodak was able to structure the largest price increases to its most captive markets and far lower increases to areas with greater price sensitivity, amateur photography, for example. *Voilà!* First-quarter 1980 earnings were not down at all, but actually increased 10%—something the doomsday crowd said was impossible. The stock surged back sharply. Add the demise of the silver corner, and it rose to the high 70s, or 85% above its low of only months before. Condition black had turned to condition green with remarkable swiftness.

So what is today's condition black? To me, at least, it seems to be the international oils. Was it three months ago or as long ago as four, that expert consensus held oils to be the best group for appreciation for years to come? But now the herd is stampeding in the opposite direction.

Perceptions have changed from worldwide shortage to worldwide glut, almost faster than you can say Sheikh Yamani. Naturally, the change in perception has been accompanied by a butchering of prices. Standard of Ohio, with its huge North Slope holdings, down from 93 to 49; Gulf from 54 to 35; Mobil from 90 to 64.

Apparently, worse news is on the way. Good authority has it that one of the giant research houses, which gained considerable distinction for its penetrating buy recommendations of Avon, Polaroid and McDonald's weeks before the top tier blew apart in early 1973, is about to come out with a ruinous report detailing how the world is awash in oil.

Again it seems investor perceptions have altered far too radically. True, Free World demand was down in 1980 and will be down again in 1981. Also true, there will be an increasing supply from Iran and Iraq (as well as producers outside OPEC) as their production comes back to norm.

However, there is another side to the equation—Saudi Arabia. With giant balance-of-payments surpluses, the Saudis are in a position to cut back significantly, particularly since some of their other investments—gold at $700 to $800 an ounce, and government securities at 10% to 12% rates of interest with 15%-plus inflation—have not proved spectacularly successful. Furthermore, Saudi Arabia has half a million Palestinians within its borders and temperate OPEC members such as Iran, Iraq and Libya in the locale, all screaming for higher prices. The country may well find it politically wise to maintain the status quo by cutting back on production.

In sum, the demise of OPEC, and with it a collapse in oil prices, unfortunately, seems more than a little premature. A world awash in oil? More likely analysts awash in pipe dreams.

If we haven't seen the end of OPEC, some of the majors look exceptionally cheap today. Three of my favorites:

Earnings for giant *Texaco* (35) have moved up almost 300% since 1978 and should be up again in 1981, despite the latest 3% cut in domestic gas reserves. Dividend payout is well below the traditional ratio, indicating the likelihood of further boosts in the next few years. The stock currently yields 7.3%. Priced at 4 times earnings, TX trades at half the market multiple, and has an estimated breakup value of $125 to $130 a share.

Mobil (64), with a major play in the Hibernia Field, should show another earnings gain this year, from the $13.27 earned in 1980. The dividend rate, currently $4 a share, has doubled in the last two years and is likely to move steadily higher. The stock trades at a P/E of 4.5 and yields 6.2%.

Well-managed *Royal Dutch* (41) is the second-largest international after Exxon. Earnings should be up in 1981 from 1980's $10 a share. The stock yields 7.5% and trades at under 4 times estimated 1981 earnings.

Do you see gasoline back at 75 cents a gallon and fuel oil at 60 cents? If not, the market has done it again, this time with the large oils, both exceptionally strong financially and likely to have anything but roller-coaster earnings. If I'm right, we have a classic low P/E story here. ■

David Dreman is managing director of Dreman, Gray & King, Investment Counsel, New York, and author of Contrarian Investment Strategy *and* Psychology and the Stock Market.

*hat do you do when a wealthy, suscep-
ıle older relative falls into the hands of
ı unscrupulous younger person?*

A SINISTER SITUATION

By John Train

THE SAME habits of domination and frugality that brought Jay Spratt success in business also made him something of a holy terror to his children. Now he is 75 and a semi-invalid widower, no longer fiercely driv- but it is too late to develop an y, affectionate relationship with children. They see him rarely. His o daughters are married and live in ıer cities. His son is a drifter. Most old Mr. Spratt's cronies are dead, d his surviving contemporaries ve troubles of their own.

His nurse-companion, Matilda, a mparative spring chicken of 60, is good health and reasonably attrac- e. She has two not-very-successful ildren of her own, and no signifi- ıt savings.

We now see unfolding one of the ost sinister sequences that an in- stment counselor ever observes in a ent family: the capturing of a althy older person by an unscrupu- ıs younger one just as the victim fts into senility.

By degrees Matilda separates old . Spratt from his former associ- ons. She does not tell him that his ends have called. When his daugh- s come to town they are told that is too weak to see them that day. ıtilda does not show him the notice the centennial dinner of his club, of ıich he now is almost the senior ember. When his cook-housekeeper many years retires, a cousin of Ma- da's replaces her.

From time to time Matilda intro- ces new friends to Mr. Spratt—a clergyman with whom she long has been friendly, and who considers her a saint; the financial administrator of a nearby hospital.

She finds a part-time secretary to handle correspondence, which she dictates and he signs with his shaky hand. Another friend of hers prepares his tax returns.

She eventually persuades Mr. Spratt to alter his will. The children receive token bequests and their choice of his personal effects. Both the church and the hospital are given substantial legacies. Smaller ones go to the cook-housekeeper, the secretary and the accountant. It is Matilda herself, however, who is named the main residuary beneficiary, receiving the house and a substantial portfolio of securities.

Matilda continues to foment disaffection between old Spratt and his offspring, who essentially are barred from access.

Finally, the old man dies. The children discover with horror what has happened to the will, and initiate proceedings in the probate court to show that the testator was incompetent. However, the clergyman, the hospital administrator, the servants, the CPA and the secretary all rebut that contention. The children are thrown out of court with no more than the token legacies that the instrument provided, and Matilda is fixed for life. Her team paid off, she heads for Florida—and perhaps a new quarry.

(In another variation Matilda marries her employer, but the other moves are much the same.)

With old ladies, the most familiar routine is a bit different. A handsome decorator (who perforce moves in monied circles) scrapes acquaintance with Mrs. Butterfield, a dowager. As a passionate connoisseur of Chinese export porcelain, or whatever, he asks to come and admire her collection.

Flattered, the old lady invites him for tea. The young man makes himself agreeable, and on leaving arranges to come again. He writes a charming thank-you letter, enclosing an illustrated book or catalog.

On the next occasion the old lady is decked out in a tea gown she has not worn for years. They get along famously. The decorator has brought a sweet Victorian sketchbook that he leaves with her. Pretty soon he is dropping in regularly on Tuesdays and Fridays, and taking Mrs. Butterfield to occasional evenings at the opera or a gallery vernissage.

After some months his partner in this campaign is introduced, a less appetizing gentleman who is also the handsome decorator's lover.

With the passage of time the pair become the center of Mrs. Butterfield's life. They find her new friends. One or the other accompanies her whenever she goes out. (She is not getting any younger, so such occasions are less frequent.) Still, she is happier than in years, thanks to the attention being paid her.

They take her to exclusive auctions, and help her upgrade the collection.

Now the power play begins. Having become familiars of the house, the young men insult the existing servants and spread poisonous tales about them to Mrs. Butterfield. One by one they are replaced by the creatures of the enterprising pair.

As she passes fully under their control, they sell her house in town and move her lock, stock and barrel to another city, far from her family. Through the staff, they dictate who she sees and what mail she receives. In due course they become complete masters of the situation, including the power of the purse, in much the same style as happened to old Jay Spratt.

These conspiracies really do take place. You, the reader, may know of similar cases. They are extremely hard to forestall. The courts hesitate to intervene. A strong countermove is for a trusted relative, presumably a brother or eldest child, to obtain a power of attorney, and then take charge of the financial and domestic arrangements. If state law permits, a "durable" power is preferable, which survives even if the old person becomes definitively incompetent.

A better solution is to have the old person put his affairs into a standby or takeover revocable trust, which outside trustees will operate if he becomes unable to. *You and Your Will* by Paul P. Ashley (McGraw-Hill), a wise book that I recommend, contains a good discussion of this device. Do any trust and estate practitioners among my readers have suggestions? ■

n Train is president of Train, Smith, Invest- nt Counsel, New York, and the author of e Money Masters *and* Dance of the oney Bees.

Fabergé Eggs
Imperial Russian Fantasies

Introduction and commentaries by Christopher Forbes

Foreword by Armand Hammer

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Investors say they're only backing away from the oil stocks briefly, and have every intention of returning soon. But will they?

PAGING FYODOR DOSTOEVSKI

By Srully Blotnick

"I JUST DON'T get it," said Tim. "The oil companies have a rosy future, plenty of money flowing in, lots of valuable assets in the ground—and these stocks lately have been acting poorly."

"I have gotten creamed so far this year," said Bob. "I got into the oil-and-gas group late. I think I was the only guy on my block who didn't already own some. But the bloom seems to be off for now."

Most investors in my sample are more than a bit confused by the recent behavior of the oil stocks. After the huge gains in price this group has registered during the last few years, no one was surprised that some profit-taking emerged. That had happened on various occasions in the past—for instance, early in 1980. But this round struck them as different.

First of all, the sell-off was larger than most had anticipated; 10% was the average figure expected. Nevertheless, Mobil, Exxon and Standard of Indiana sank by 25%, while smaller companies such as Valero and Natomas dropped by 33%. Second, the group has failed to ignite anew, the way it did throughout the middle and latter part of 1980, when it once again provided the market with leadership.

The primary explanations offered by investors are of two distinct types. The inflation hedge argument is easily the one cited most frequently. More than half of the investors in my sample who own oil stocks—276 of 534—are willing to state explicitly that they hoped to protect themselves against soaring gasoline and home heating oil costs by owning a piece of the companies which are involved with those products. ("Buying two fingers of the hand that's always picking my pocket," is the way one elderly investor described his motive for purchasing the stocks.) The fact that the majority of these investors now expect inflation rates to head lower in the foreseeable future has weakened their white-knuckled grip on the group.

There's also a shorter-range reason why my investors have lost interest in oil stocks: The current oil glut is a continuing source of surprise, and discomfort, to them. "When I heard that the majors—Gulf and Shell—were lowering wholesale prices to dealers by 3 to 5 cents a gallon, I was amazed," said one. "I simply didn't expect the supply of crude to remain this high this long." Few are of the opinion that the condition will persist. Said most: "I can't imagine supply and demand staying out of sync for more than another few months."

If we ignore for the moment what these investors are saying, and instead examine what they are actually doing with their money in the market, something fascinating emerges. Both categories of explanations seem to be indicating that, although this segment of the investing public is briefly backing away from the oil stocks, they have every intention of returning to them again at the first sign of renewed interest, say, by institutions, in the group.

However, the stocks these investors have been buying recently tell an entirely different story, one that belies their words. The two groups they have spent the bulk of their money on in the last ten weeks have been the steels (U.S. and Bethlehem) and the chemicals (Dow, Union Carbide, Du Pont and especially Monsanto).

With financial behavior generally, if you focus too closely on a single purchase, it's easy to miss the point about why people are spending their money in that way to begin with. The

Dr. Srully Blotnick is a practicing psychologist and author of Getting Rich Your Own Way *and* Winning: The Psychology of Successful Investing.

forest matters every bit as much as the trees. There is a pattern to the purchases that must not be overlooked. In the market we call it a *mentality*, since stock selection is rarely random, even though the daily variation in stock prices usually is. The groups chosen are an expression of an individual's, or the nation's, outlook.

Investors who choose Dow and U.S. Steel, after having been enamored of Mobil and Valero, haven't merely stepped away from the oil stocks for a short while. They have unwittingly abandoned them for something else. Listen to their comments about the recent purchases they've made and you'll see how far they have come. Keep in mind that many of them raised the money with which they bought Gulf, Texaco and Sohio by *selling* the steel and chemical issues now catching their eye once more.

"These stocks are what America is all about," said one, referring to the 1,000 shares each of Celanese and Allied Chemical he'd just purchased, "and it's time for this country to get back to basics." Said a second: "The companies have been selling at a discount (in P/E terms) to the market, and I think they'll soon sell at a premium." Commented a third: "I was high on the chemicals group in 1975-76 and then dumped them, but I'm convinced these companies will be prime beneficiaries of Reagan economic programs." Said a fourth: "I can see Du Pont and the others having several years of back-to-back growth, and I want to get in before it happens."

The fact that they're unwittingly weaning themselves away from their addiction to the oil stocks doesn't mean they can't return to it. They could just as easily go forward as back, since, intellectually at least, they've got one foot in each camp, and are fully committed at this point to neither. The proportion of investors who are undecided and ambivalent is large enough to cause some highly disorienting rip tides and roller coastering in the upcoming months.

As Dostoevski made abundantly clear in *Crime and Punishment*, you don't need two armies clashing in order to have a civil war. It can happen in the mind of one man.

Old Fyodor would have made one hell of a stock market analyst.

He'd have understood why we currently have so indecisive a market, one that jerks strongly in an up direction, then yanks with equal vigor straight down, yet winds up largely in the same place it started. ■

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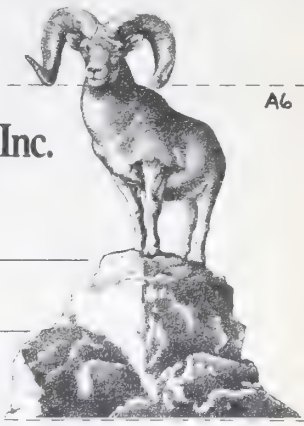

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The political and economic weather is changing for the better, but there will be some dangerous squalls first.

CHOPPY SEAS AHEAD

By Ashby Bladen

THE BUDGET debates in Washington are making it clear that, for the moment at least, a national consensus exists in favor of reducing the growth of government and increasing the incentives for working, saving and investing. True, there is a lot of political infighting over which programs will be cut by how much. True, there is much wailing and gnashing of teeth by the social democrats who would rather be washed out to sea in ideological purity than row pragmatically back to land while there is still time. But it seems certain that the new Administration will cut substantially the rate of growth of government spending and restore incentives for productive efforts in the private sector.

Thus it is very likely that we are observing a fundamental turn in the tide that has been running for the last half century—and flooding for the last 20 years. The American people have finally realized that economic growth is not automatic. Apparently they have decided that they would rather share unequally in a growing pie than squabble about fair shares of a static or shrinking one. This political development leaves me feeling considerably more optimistic about the long-run prospects for the U.S. than I was even a few months ago. And the Wall Street enthusiasts for supply-side economics point out that the conditions that promote rapid growth and prosperity also should be very good for common stock prices.

Surely they are right, in the long run. But saltwater fishermen and inshore boatmen also know that the turning of a strong tide produces cross-rips and choppy seas before the current settles down in the new direction. Many bits of flotsam and jetsam were picked up and carried along by the tide of the last half century. These have been stranded as the flow slackened, and now present serious hazards to navigation. Let me start with two that require political solutions. Then I will conclude by restating the main problem confronting those of us who must pilot our business and personal craft through these unsettled waters.

First, Social Security. In 1936, when the Social Security Act was passed, the conventional wisdom that was also embodied in J.M. Keynes' General Theory was that saving is socially dangerous because businessmen could not be trusted to invest all the money that people might want to save. So the Social Security system was set up as a transfer payments scheme. Except for a modest checking-account balance, the system generates no savings at all. Thus no provision is being made for the future retirement benefits of the people who are currently paying the taxes. It is a system that can work only as long as the benefits are modest or the number of working people grows at least as fast as the retirees or inflation pushes wages up faster than pensions.

By now none of those conditions exist, and the system faces a cash crisis a few years down the road. It is also becoming increasingly clear that its long-run viability is unknown, and probably unknowable. The retirement benefits are rising more rapidly than earned incomes are because the system is over-indexed for inflation. The tax burden has already become onerous enough to contribute to the flight into subterranean economy, and the population is growing older. Something has to be done to avert a cash crisis in the short run, and perhaps major changes are required to prevent a total breakdown in the next century.

Commingling the retirement and the health benefit funds would be a useful bandage during the next few years. Postponing the payment of retirement benefits for a few years to reflect improving life expectancy, and ending their over-indexation for inflation, would also help. But whether these adjustments will cure the long run problem is anybody's guess. The assumptions are so tenuous, and the relevant time period is so long, that there is much scope for legitimate differences of opinion. Retired people should have the largest incomes feasible; but how high can payroll taxes go before all the workers disappear into the subterranean economy? A similar problem exists with state unemployment compensation funds.

In the personal and business sector the fundamental problem is that 20 years of well-meant but misguided attempts to stabilize the economy, to make credit readily available to everyone and to bail out everybody whose failure was likely to cause unemployment have caused businesses and individuals to decide that being in debt during an inflation is profitable rather than dangerous. For most of the last 15 years the American people have been off on a borrowing and spending spree. This spree has worsened the inflation that was originally unleashed by the government's deficit spending. We know what the new Administration intends to do about government spending, but what about the inflationary debt creation in the private sector?

I have praised the intellectual vigor and consistency that President Reagan's advisers have applied to the problems of economic and financial policymaking, but in private-sector debt it is not clear that they have thought things through with sufficient rigor. It seems they intend to pursue a gradualist approach to reducing inflationary private-sector borrowing and spending. But gradualism has not worked in the past. It won't work now. What is needed is a financial crisis that inflicts painful losses on imprudent borrowers and lenders, and leaves them more afraid of debt than they are of inflation. My impression is that several of Reagan's key advisers know that—although they have not incorporated it into their formal projections—and are prepared to let it happen. This will be healthy for the long run, but frightening in the short run. Therefore, I continue to recommend caution and liquidity. ■

Ashby Bladen is senior vice president-investments for the Guardian Life Insurance Co. of America, and author of How to Cope with the Developing Financial Crisis.

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Trading options—after you've paid commission costs—is worse than a zero-sum game. So why go up against professionals like Gary Gastineau and Al Madansky?

"Take a cold shower"

By William Baldwin

The Money Men

IN THE MYSTICAL WORLD of stock options, magic formulas that are supposed to guarantee profits come and go like the latest merger rumor. But the Options Portfolio Service at Kidder, Peabody & Co. seems to have found a recipe for success: Take a financial analyst with good instincts, team him up with a clever mathematician and give them some money and a computer to play with. Kidder set up OPS in 1975, and since then its accounts have posted an average annual return of 27.3%, compared with 11.4% for the Standard & Poor's 500. Today OPS has $31 million in assets—not much for an equity fund, but huge for an options portfolio.

Gary Gastineau, the analyst, met Albert Madansky, the numbers whiz, at a broker's office in 1973. Madansky, a math professor, was fascinated by options when he heard Ed Thorp, the card-counter who beat the Las Vegas blackjack dealers, talk about them at a faculty meeting in 1965. Gastineau got the bug in 1966, when he made a quick $25,000—"dumb luck," he says—buying TWA warrants just before Howard Hughes sold his controlling interest in the company. When Madansky met Gastineau, they decided to develop their own system for playing the fledgling options market.

Gastineau soon quit a job as a portfolio manager for S&P's Intercapital Corp. and started commuting from his home in Short Hills, N.J. to Madansky's in Great Neck, N.Y. to work on a mathematical model of options pricing. The pair built up a year of test results, mostly dry runs, before they convinced Kidder to let them try it out for real. "It's a typical start-in-your-garage-and-work-your-way-up thing," says Madansky, a not-so-typical fellow who completed work for his Ph.D. at the age of 22.

The two complement each other. "I've never considered myself a mathematician," says Gastineau, "and you'd be making a mistake if you asked Al to manage your portfolio." Madansky wrote the 750-line FORTRAN program that takes computer tapes of closing stock prices every night and cranks out option values. The next morning Gastineau translates those numbers into portfolio strategies.

Options strategist Gastineau
A curve that's like a secret formula.

Madansky, 46, is on leave from the University of Chicago to help the government of Israel with a census. For him the Kidder, Peabody work is a part-time business sandwiched in between teaching and an assortment of other consulting jobs. For Gastineau, 40, it's a full-time job. The two share, by indirect means, in a percentage of the brokerage commissions Kidder collects on their accounts. And Gastineau figures he's already making more than he ever would have if he had stayed at Exxon, which was his first employer after he got out of Harvard Business School in 1964.

"There are as many opportunit buy underpriced, or sell overprice tions today as ever," he says confid Most professional traders evalua tions using a key assumption: I chart probabilities for future stock on a ratio scale—where a $100 pi the same distance from $50 as $200—the familiar bell-shaped cu statistics will emerge. This fits a st cian's yearning for mathematica gance but doesn't fit reality. Mad and Gastineau concocted their curve—a jagged experimental one on four years of daily stock prices optionable stocks. It's not the s curve a purist would love, but they it the same way Coca-Cola guar recipe. It works.

On a recent day in his cramped Street office, Gastineau was busy pu in orders to buy Warner Commu tions warrants at 11. He got 31,40 fore the price ran up to 11 3/4. warrant entitles the holder to buy a of Warner at 55 anytime in the nex years. Although the stock is on about 43, the warrants could be valuable; if its price climbs by 1 year, for example, they will be wort each at expiration.

Options evaluation is more comp ed than this, Gastineau explains, si has to take into account projected dends and price volatility. But even conservative estimates for these bers, he thinks the warrant should been going for at least 15. Gastineau very bullish about Warner, so he's l ing each warrant with a short positi May 40 calls. He agrees to sell Wam 40 to the call buyer anytime bet now and May 16. For each call on shares of Warner, Gastineau collect option premium of $400. He prob will continue to write calls agains warrant holding, waiting patiently the warrant price to come into line its underlying value. Then he'll clos both sides of the transaction, hopir make more on the profitable leg tha loses on the other side.

This is pure arbitrage. Most of G neau's accounts, however, have o one-sided positions, so that they ar balance bullish. He calculates that are equivalent in risk to a portfolio invested in common stocks. "Usuall buy a stock because we like the c pany, and then we're looking at the tion to see the most efficient wa taking a position."

One day last April, for example, tineau decided that IBM was a good at 54 7/8. He bought three times as m shares as he wanted and sold some against the position. The computer him that this roundabout transac was equivalent in risk to buying smaller number of IBM shares. It

hat the options involved were over-
l. On balance, the deal was about
ıme as buying IBM at a bargain 52.
gravy was in the calls, why not sell
and forget the stock? Because, says
neau, such a naked transaction
d have thrown too much risk into
counts.
stineau takes risk equivalency very
ısly. Consider the theory that writ-
alls against an existing portfolio will
ıce the return. Investors seem to
they can sit back and collect the
n premiums as extra income, suffer-
nly occasional lost profits as stocks
rise handsomely are called away
them. An appealing notion to the
, says Gastineau, but folly for some-
who has no systematic method for
lating volatilities and knowing
h options are overpriced. In fact,
ng random calls will depress the re-
over a sufficiently long period, for
imple reason that writing the calls
ces the risk in the portfolio. Reduced
goes hand in hand with reduced re-
s. Why? "If it didn't, nobody would
risks."
vered writing, however, is just one
ire strategy touted by options deal-
Another is the butterfly spread,
h is supposed to lock in a profit if a
k price stays within a certain range.
wo calls at 40, for example, buy one
, and one at 45. Result: a wash if the
k price at expiration is above 45 or
w 35, and a profit if it falls in be-
n. "Call it an alligator spread," says
ineau. "Transaction costs will eat
alive."
there are no strategies that always
there are some that are preordained
s. One, for almost any individual
stor, is selling stock short. The prob-
here is the tradition—illogical but
profitable for the broker—that the
er keeps the interest earned on the
eeds of the short sale. That's one
on why it's hard for individuals to
pete in the game of merger arbitrage,
h involves short-selling. But there is
y out, if the stock you're bearish on
listed options. In that case, says
ineau, buy a put and sell a call. This
uivalent to a short sale—except that
as no built-in loss of interest. Pro-
s from the call will reduce the cost of
out. Still, of course, you'll get burned
ne stock takes off: Writing a call
ges you to sell at a fixed price.
espite the risks, Gastineau does not
e the options game off as hopeless
he amateur. Anyone can have a spe-
understanding of a company or of an
ıstry, and that is a legitimate reason
nvesting in options, he says. But he
as potential investors against gim-
ks. "Anytime you come up with a
tegy that on a risk-adjusted basis will
ıys make money, take a cold show-
he concludes. ■

Statistical Spotlight

Is the Prudential offer for Bache the shape of things to come? Or is it just a fluke?

Up for grabs?

By Steve Kichen

THE PRUDENTIAL INSURANCE CO.'s recent offer to acquire The Bache Group for $375 million in cash set off immediate speculation over possible buyouts of other publicly traded brokerage companies. During the week of the Prudential announcement, "acquisition fever" helped most brokerage stocks gain a point or two. Some did better: E.F. Hutton gained 3½ and Paine Webber, 3⅛.

But it's highly unlikely that the Pru's Bache bid will trigger a rash of brokerage house takeovers. "Bache is unique because it was shopping for a white knight to protect them from the Belzbergs," says Frank De Santo, an analyst with *The Value Line Investment Survey*. "I don't see the management of E.F. Hutton or Paine Webber, for example, looking to sell their companies. These brokerage houses are the products of long-established partnerships, and insiders still control a large chunk of most of them" *(see table, p. 204)*. At some brokerage houses, there is also a significant outside interest. For example, S.A. Financière de Crédit Suisse et de First Boston holds about 38% of First Boston and INA Insurance holds about 22% of Paine Webber.

The reason brokerage stocks tend to sell at multiples lower than the market is because of their traditional volatility. Once they get enough sales volume to get them past their fixed costs, it's all gravy from there. But when market volume dries up, the two-edged sword of leverage can cut their profit picture to ribbons. That is why companies such as E.F. Hutton and Shearson Loeb Rhoades are diversifying into other areas.

Will other insurance companies, oil companies or conglomerates be tempted by the relatively low net worths of most of the brokerage stocks? De Santo doubts it. "The securities business is risky, a business of which outside companies have little knowledge. Besides, most of the companies are already selling well above book value and are on the high side of their recent price ranges."

Pru Chairman Beck (seated, left) *and Bache Chairman Jacobs* (seated, right) *talk merger*
Will the Bache takeover start a trend?

Brokerage stocks

The Prudential offer for Bache may not signal a stampede to acquire other brokerage houses, but this industry could do beautifully if the market bulls lead a stampede of a more broad-based kind.

Company[1] (net worth in millions)	Recent price	Book value per share	Latest 12-month earnings total (mil)	Latest 12-month earnings per share	Price/ earnings ratio	Indicated dividend	Indicated yield	% contr by insid
The Bache Group[2] ($154.0)	31¼[2]	$15.20	$36.5	$3.62	8.6	$0.60	1.9%	41
Donaldson, Lufkin & Jenrette ($59.7)	9⅛	6.85	8.8	0.97	9.4	0.16	1.8	18
AG Edwards & Sons ($55.9)	25	8.75	21.9	3.42	7.3	0.95	3.8	50
(o) **First Boston** ($127.2)	29½	28.05	33.6	6.79	4.3	2.25	7.6	9
EF Hutton ($173.9)	32½	17.57	82.6	6.16	5.3	0.80	2.5	23
Merrill Lynch ($784.2)	36½	24.90	203.3	5.51	6.6	1.12	3.1	3
Paine Webber ($115.8)	21⅞	10.60	d 3.7	d 1.28	d	0.44	2.0	52
Shearson Loeb Rhoades ($144.2)	35¼	12.73	85.7	6.32	5.6	0.48	1.4	30
Dean Witter Reynolds Organization ($194.5)	23⅝	19.82	47.1	4.64	5.1	0.80	3.4	65

[1]All companies listed on the New York Stock Exchange except those labeled (o) over-the-counter market. [2] Prudential Insurance Co. of America made acquisition offer $32 a share. d: deficit.

In a turnaround situation, a tax-loss carryforward can turn out to be as valuable as a peek at tomorrow's stock prices.

Statistical Spotlight

From the ashes

By Steve Kichen and Jonathan Greenberg

EVER SINCE THE OLD Penn Central Transportation Co. was restructured in 1978, a single paper asset has proven more valuable to the company's success than all the old tracks, locomotives and equipment put together. The asset: tax-loss carryforwards.

A tax-loss carryforward is a tax deduction resulting from losses that shelter net income from taxes for up to seven years. It is also possible to write losses backwards against net income for the previous three years (a so-called carryback).

One thing Penn Central Transportation had plenty of was losses—enough to allow $282 million in net income to go untaxed in the past three years, plus another $600 million deduction applicable to earnings over the next five years. "This helped Penn Central get back on its feet and literally build a new corporation," commented Penn Central spokesman Bill Cunitz. "We have not paid any federal income taxes since our reorganization in October 1978."

Penn Central Corp. has moved out of the railroad business completely. It is now a diversified company involved in energy, electronics, real estate and recreation. The tax-loss carryforwards have facilitated Penn Central's use of income to acquire other companies.

An investor who gambled on the talizing power of those tax-loss car wards back in 1978 and purchased s in the new Penn Central would realized a profit of over 150%.

Of course, a tax-loss carryforwar carryback, is useful only if a com has profits to shelter. There's a ch that Chrysler's $2 billion carryfor could add about $1 billion in addit income to the bottom line in the yea come. But to take advantage of thi portunity, Chrysler will have to eng a miraculous recovery.

Tax-loss carryforwards have play large role in the recent trend amon lines to lease, rather than buy, planes. Although the Investment Credit (ITC) given to airlines to en age equipment purchases has the s time limit as tax-loss carryforwards IRS stipulates that a company mus its loss carryforwards *before* it can ITC. With carryforwards mountin companies like Pan Am ($130 mill American ($106 million) and Eas ($75 million), the airlines have to until better times before they can advantage of the investment tax cr Analyst Eva Davis Holman, of Dor son, Lufkin & Jenrette, explains leasing allows the airlines to pass of tax benefits to the lessor in order to break on rates.

hough Holman agrees that carryfor- s are potentially advantageous, she s that investors should approach anies that have them with caution. n sort of suspicious of using a loss forward as an excuse to buy," she "You have to realize why they have things to begin with."

rtainly the list below is heavily nted toward the speculative side. al firms are in Chapter 11 and a few recently been reorganized. Others, as Chrysler and Great Atlantic & ic Tea Co., are struggling against ult odds.

Of course, bankruptcy doesn't necessarily mean the death of an organization. But there is usually the danger of significant dilution of existing stock. For example, when the old Penn Central Transportation Co. was restructured, 25 shares of stock were exchanged for 1 share of the new Penn Central. The proposed Food Fair reorganization plan involves the issuing of 2.2 million additional common shares, preferred that can be converted into 4.4 million common shares, as well as other classes of preferred stock.

Still, there can also be a positive side to heavy losses. After losing $92 million in 1979, Singer has doubled in price. And it still has a $55 million tax loss, which it can offset against future income. Teleprompter ran into some difficulties in the mid-Seventies and still carries an $11 million tax-loss carryforward. Westinghouse made a $38-per-share cash offer for Teleprompter, which is expected to go through. In 1975, after losing over $38 million in the previous two years, Teleprompter sold for as little as $1.50 a share. Had you taken a chance then and waited to sell your shares to Westinghouse you would have more than a 2,400% gain on your investment.

Tax umbrellas

Iere's a list of companies with the earnings leverage of ırge tax-loss carryforwards. Each lost a minimum of $25 ıillion in at least one of the last seven years. Of course while tax-loss carryforwards can be a real shot in the arm, they're only valuable if the company has income to offset against the tax-loss carryforward.

Company[1]/principal business	Tax-loss carryforward total (mil)	Tax-loss carryforward per share	Revenues latest fiscal year (mil)	Latest 12-month earnings total (mil)	Latest 12-month earnings per share	Recent price	Price/earnings ratio	Book value per share
Allied Supermarkets[2]/grocery stores	$ 41.2	$ 7.90	$ 534.8	$ 3.2	$ 0.61	2⅛	3.5	d
American Airlines/airline	106.0	3.69	3,821.0	d125.2	d4.78	14⅞	d	$23.75
American Motors/auto	72.0	1.38	2,552.6	d197.5	d6.00	4⅞	d	9.25[3]
RL Burns/coal, oil and gas	36.3	2.27	104.9	8.2	0.54	7⅛	13.2	0.50
CI Mortgage Group/real estate investment tr	33.6	6.98	11.6	2.9	0.61	7¾	12.7	9.42
Cenco/health care services	15.9	1.58	143.9	6.4	0.61	10⅝	17.4	4.85
Chicago Milwaukee/diversified holding co	173.0	70.55	111.1	2.1	0.87	39⅝	45.5	d
Chrysler/auto	2,000.0	29.86	9,225.3	d1,709.7	d26.00	6¾	d	nil[4]
Commonwealth Oil Refining[2]/oil refining	20.8	1.39	1,313.2	d1.7	d0.22	2½	d	7.00[3]
Eastern Air Lines/airline	75.0[4]	3.03	3,450.0	d42.1	d1.97	9⅜	d	16.10[3]
Fedders/climate control systems	70.0	6.31	137.9	d29.0	d2.79	7⅛	d	d
First Pennsylvania/banking	150.0[4]	9.50	755.7	d164.1	d10.47	4½	d	11.98
Food Fair[2,5]/grocery stores	121.0	16.44	1,124.1	17.6	2.38	4⅛	1.7	d
Genesco/apparel	29.1	2.31	834.7	4.2	0.08	7	NM	d
Great Atlantic & Pacific Tea/grocery stores	116.0	3.10	6,684.2	d49.9	d1.74	5⅜	d	10.85[3]
Grolier/publishing	41.8	3.94	312.7	9.3	0.84	2⅝	3.1	d
Intl Harvester/agricultural equip	165.8	5.21	6,311.8	d271.5	d8.86	18⅞	d	53.30
Itel[2]/leasing	275.0	23.02	223.8	d63.4[4]	d5.30[4]	½	d	d
Jonathan Logan/apparel	4.2	0.81	438.7	6.6	1.28	9½	7.4	25.65[3]
Leucadia National/finance	10.0	3.29	25.6	d2.8	d0.83	6⅜	d	8.20
LTV/integrated steel	200.0	4.77	8,010.0	127.9	3.95	22⅞	5.8	21.00[3]
MCI Communications/telecommunications	2.6	0.08	144.3	14.8	0.12	13⅝	NM	0.40[3]
McLouth Steel/integrated steel	48.7	8.93	614.0	d55.0	d10.22	7⅞	d	22.65[3]
Memorex/computer equipment	16.0	2.21	768.7	d29.0	d4.42	13½	d	19.25[3]
National Tea/grocery stores	12.0	1.20	1,219.3	8.7	0.87	5¼	6.0	8.45[3]
The Outlet Co/broadcasting	1.0[4]	0.39	313.1	d33.3	d13.53	33⅝	d	d
Pan American/airline	130.0[4]	1.83	3,550.4	80.3	1.13	4⅞	4.3	8.30[3]
Penn Central Corp/multicompany	600.0	25.91	2,013.7	93.6	2.72	45⅝	16.8	50.70
Pier 1 Imports/retail	43.0	8.27	117.2	d2.8	d0.57	3⅛	d	2.05
Republic Airlines/airline	46.9	2.24	916.7	d24.7	d1.19	6⅞	d	5.25[3]
Sambo's/restaurants	22.0	1.71	490.1	d11.6	d0.90	5¼	d	1.75[3]
F&M Schaeffer[6]/brewing	38.0	20.42	183.5	0.6	0.14	7	50.0	d
Seatrain Lines[2]/ocean transport	35.7	2.47	1,257.5	d219.6	d15.16	½	d	d
Singer Co/sewing machines; electronics	55.0	3.32	2,786.6	38.1	1.92	16⅛	8.4	13.30[3]
Teleprompter[7]/cable TV	11.0	0.65	203.6	23.2	1.36	34⅛	25.1	6.00[3]
Todd Shipyards/shipbuilding	9.6	2.25	507.4	14.3	3.08	26	8.4	28.08
UNC Resources/uranium mines	12.8	1.22	267.3	d32.0	d2.99	13⅛	d	14.37
United Merchants & Mfrs/textiles and apparel	158.0	26.63	622.0	d28.0	d4.72	5¼	d	9.63
Western Air Lines/airline	15.5	1.19	995.7	d29.6	d2.46	10⅛	d	12.60[3]
Wheeling-Pittsburgh Steel/integrated steel	4.0	1.03	1,054.1	14.7	2.85	29⅛	10.2	87.50[3]
White Motor[2]/manufactures trucks	10.4	1.11	1,211.0	d56.6	d6.17	3⅝	d	NA
Wyly/computer services	20.0	1.72	117.8	19.5	1.54	11⅞	7.7	3.25

ll companies listed on the New York Stock Exchange except those labeled (m) Midwest Stock Exchange, (o) over-the-counter market, (p) Pacific Stock Exchange, (f) iladelphia Stock Exchange. [2]Company filed for reorganization under Chapter 11. [3]Estimate from *The Value Line Investment Survey*. [4]Estimate. [5]Shareholders proved reorganization into a holding company: Pantry Pride. [6]Stroh Brewery made acquisition offer @ $7.40/share. [7]Westinghouse made acquisition offer @ 8/share. d: deficit. neg: negative. nil: negligible. NA: not available. NM: not meaningful.

Canned tuna, cereals, cheeses. . . . Investors are checking their shopping lists, and here's a guide to the best buys around.

Food for thought

The Streetwalker

By Newcomb Stillwell

RALSTON PURINA has been a regular on the most active list lately. Kellogg seems to hit a new high every other day. Stock maven Warren Buffett bought a big piece of General Foods. Cash-rich Brascan Ltd. has a position in Quaker Oats, maybe others. Takeover rumors swirl. If you didn't know any better, you'd think these were Denver pennies, instead of staid blue-chip food stocks. How best to get a piece of the action?

For starters, don't worry that you're too late. Traditionally, food stock earnings multiples match the overall market. Today, companies like General Foods and Heinz trade at 7 and 8 times earnings in a 9-multiple market; others are laggards, too. There's still time.

Second, consider carefully some food stock facts and fallacies:

• Fact No. 1: *Food stocks go up when interest rates fall, and vice versa.* This has been particularly true over the past five years, but nobody really knows why. John Maxwell of Lehman Brothers, who has tracked the relationship, thinks it's because food companies attract conservative investors, people who find double-digit government paper hard to pass up. It may also relate to expectations of stable prices: Money coming out of inflation hedges like energy stocks has to go somewhere. At any rate, don't buy General Mills if you find yourself agreeing with Henry Kaufman.

• Fact No. 2: *Food stocks go up when commodity prices go down, and vice versa.* This happens all the time, but it doesn't make sense: Industry earnings don't follow the same pattern. That's partly because food companies account for commodity prices on an average cost basis, which minimizes the impact on profits. Also, ever since Richard Nixon imposed price controls after a big commodity boom, the industry has been quick to maintain margins by raising prices—and constant margins on higher prices and stable vo mean bigger profits. When comm prices go down and stay down, companies boost advertising to market share. Nobody likes to prices. So don't worry about food i try earnings when the CBS Ev News runs scare stories about cor wheat crops this spring. Worry stock prices, though. Says Lee Tav Oppenheimer: "It's just psycholog psychology moves the market." are still a lot of greater fools.

• Fallacy No. 1: *Generics are k national food brands.* A recent *Bu Week* article notwithstanding, Nielsen Co. sales analyses indicate in fact, no-brand products are k house labels. The market share of erics and house labels combined remained remarkably constant fo years at just over 25%, while the g ics' share of that 25% has risen sh in the past two years. Says Wi Knobler of Sanford C. Bernstein: " time you see a concept on the cov a major business magazine, you ca sure it's wrong." Cynic.

• Fallacy No. 2: *Food industry ear hold up when the economy is sluggis cause people have got to eat.* Not fo companies. People eat different t when times are good than they do times are bad. Says Lehman's Max "You have to analyze the group portfolio, and shift preferences de ing on your economic outlook. Lo convenience items: down in units.'

So, freed from all misconception armed with an economic outlook, should the smart investor buy? A ways, there are almost as many ans as analysts. Maxwell, for example, consumers squeezed by inflation trading down on purchases. That m eating more cereal, baking more scratch. It doesn't mean switchin generics or cheaper brands: "House day are built with kitchens practica the living room; your friends car what you're serving. If you give them Overshoe whiskey, they'll think, guy must really be on the skids.' "

With that in mind, he favors Ge Mills and Kellogg on the cereal play Quaker Oats on cereal and flour, as as its new management and a toy su iary that produces over 25% of earn "We've got a baby boom here for se years," he says, "most of them first which means more toys. Quaker real lock on preschoolers."

Tawes of Oppenheimer shares well's views on inflation and sees companies profiting from John Q. lic's pain. Heinz, he thinks, shoul well on increased demand for its and "57 varieties," as should CPC I national, which makes things like mann's mayonnaise and Skippy pe butter. He also likes Dart & K

e, and Hershey Foods because of ing cocoa costs. Tawes prefers er to the other cereal companies se it's cheaper: "If you start with a you've got to make money."

vrence Adelman and John Weiss, Witter Reynold's food team, have a ly different perspective. "The rea- g," says Weiss, "has nothing to do the fact that these are food compa- They like Pillsbury, for example, se of the strength of its Burger King teak and Ale restaurant chains; so, Bob Evans Farms for its restaurants proprietary fresh pork sausage for- Dart & Kraft is attractive because rt's Tupperware and Duracell bat- —and the bet that Reagan won't milk price supports soon, which stabilize raw material costs for e. Their fifth pick, Pioneer Hi-Bred, even a food company; it sells hybrid the best in the field, they think.

nstein's Knobler is also sweet on bury and Heinz. But, as a contrarian, so has a few picks of his own. Pros- for Ralston Purina, he thinks, are oving now that the dogfight for et share in pet foods is easing and entrants are raising prices. Pros- for its stockholders are better too, that a recent stock rise seems to cleared institutional selling pres- "There's a tendency to sell when get even," explains Knobler. He also ts on rising sugar prices to help lard Brands; its corn syrup business every time sugar gets cheap.

nclusions? Lots of stock and not consensus—though Quaker is high any lists. But everybody agrees on hing: The industry is full of solid, if y spectacular, companies, and their s are cheap. In these perilous times, tors could do far worse.

Is Wiggley wobbly?

E SAY WALL STREET has discovered oil and gas than the Seven Sisters. that in mind, take a hard look at ary's big Tomcat No. 1 strike in the larko basin outside Eakley, Okla. ng at a depth of 15,335 feet, where s aren't controlled, the wildcat well ed gas at a rate of almost 100 mil- cubic feet a day and inflated its own- tock prices.

e big winner, with a 19% stake in discovery, was Washington Gas Co.—Wiggley to its followers, after icker symbol WGL. Shares in the -based utility jumped from 22 to 34 day the news went out. They now just shy of 40, even though the well wn while a blowout is repaired.

at runup is remarkable in light of ncertainty that surrounds the Tom- vell. The big problem is that nobody vs how much gas has been tapped— of all Wiggley, which steadfastly refuses to make reserve estimates. C.W. Culpepper of Ports of Call Co., the well operator, claims that his mud logger indicated 200 feet of "pay," on 14 drilling "breaks" of between 8 feet and 50 feet each. By rule of thumb, then, the well could yield as much as 200 billion cubic feet of gas. "That'd be on the high side," he admits. Mud loggers have a hard time telling gas from water.

Investors, however, are quick to become instant experts in the subterranean. A 17-point jump in Wiggley's market value, says John Olson, an analyst at Rotan Mosle, translates into a stock market valuation of a 19% interest in about 170 billion cubic feet of gas. Even so enthusiastic a Wiggley fan as Barry Sahgal of Bache is loath to expect reserves of more than 100 billion cubic feet in the 640-acre Tomcat section.

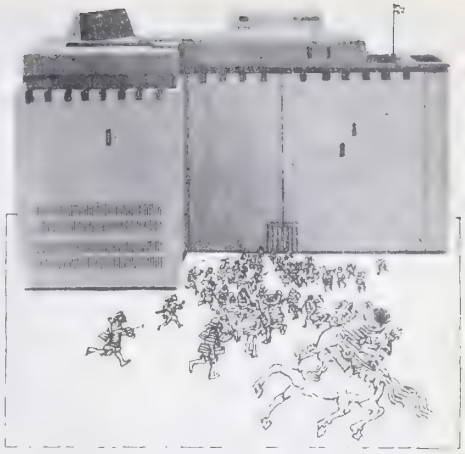
Still, including the Tomcat section, Wiggley has a roughly 10% interest in the 26 sections of the Anadarko basin. With partners it is punching six new holes in the area. Those wells might hit. If each section averages, say, 50 billion cubic feet of gas, that means total Anadarko reserves of some 1,300 billion cubic feet, and another 40-odd points for Wiggley to run. But then again, they might not hit. "And as you drill deep to get at that uncontrolled gas," says Olson, "costs don't rise geometrically, they rise exponentially."

Then there is Wiggley's distribution business in Maryland, Virginia and the District. Customers see the potential of Tomcat, too. Says Brian J.H. Lederer, city-paid People's Counsel of the District of Columbia: "The drilling subsidiary's capital hasn't been broken out in rate hearings, so there's been cross-subsidization between it and the utility operation." Thus, rate payers expect big profits to give them lower utility bills. Legally, they can't get much because Wiggley has carefully kept drilling expenditures out of the rate base. But any dollar they do get comes out of utility earnings.

Add it all up, and Wiggley, yielding 6.7% at 11 times earnings, looks awfully risky. A 40-point potential upside is enticing. Still, if you bought in before the strike, you've already just about doubled your money, and a bit of bad news from Oklahoma could evaporate that gain fast. Greed has bankrupted more investors than bad advice ever did. Profit taking, anyone?—**Newcomb Stillwell**

Xerox under siege

PICK UP A STOCK PRICE TABLE for Xerox and you would think someone has been toying with one of the company's copiers. With a few temporary exceptions, its shares have traded in the narrow range between 50 and 60 for the past five years. Since then, however, profits have nearly doubled—



reducing the erstwhile Nifty Fifty growth pick to a middle-of-the-road price/earnings multiple.

Xerox, of course, is still an institutional favorite. Professional investors hold nearly two-thirds of its shares, and those higher earnings now produce dividends that make for a yield of nearly 6%. With technology stocks now on everyone's shopping list, does that make the $8 billion-a-year leader of the office copier industry a buy?

Some of Wall Street's sharpest analysts, such as Morgan Stanley's Ulric Weil, think not, and they agree about what is blurring Xerox' prospects. For years the Connecticut-based company grandly ignored the tide of Japanese competitors selling low-priced copiers, because of its dominance of the market for more expensive machines. Then, starting in 1978 with its 2600 model, Xerox aggressively moved into the small-copier business. As a result, its margins have slipped from 31% to 26%. "Xerox is buying market share in small machines," says Weil. "The company has made a strategic decision to forgo profits to protect its presence in a very important business segment."

Things could slip even further in the future, say analysts, for several reasons: IBM has just entered the desk-top-copier business with a unit made by Japan's Minolta Camera Co., and that could make competition in that area even fiercer. But the ultimate threat to Xerox is at the high-priced end of the market. Competitors like Canon, Ricoh, Sharp and Toshiba are likely to introduce new, larger models so they can "grow" their current customers into more expensive machines. Such big-ticket copiers, however, now provide most of Xerox' earnings—and it has a healthy 70% of that business.

American ingenuity may ultimately prevail. But for the moment, the analysts say, the costs of fighting this battle will probably hold Xerox' annual profit increases to around 10% for the foreseeable future. That's certainly not bad, but 10% is not the kind of earnings growth that analysts get excited about these days.—**Nick Galluccio**

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Salomon Bros
Sandoz Pharmaceuticals
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favorite argument used by those picture government ownership as anacea for all the ills of the world is governments can borrow money so much more cheaply than corpora- or anybody else. Governments can w at somewhat lower rates so long ey stick to strictly governmental ions. But when they start to run ads, mines or other business enter- , and have to borrow very heavily, they soon find out that they have living in a fool's paradise, and that must pay stiff rates for capital just ame as everybody else."

sponsible private business interests guarantee to the Government ade- return on the total completed in- nent at Muscle Shoals, then Secre- of War Weeks will recommend the pletion and development of the . As any such return on this invest- at war costs is seemingly impossi- the abandonment of the project is y."

ications are everywhere manifest Henry Ford] that the bottom of the ness depression has been reached passed, and the trend of industry is definitely upward. With the Ford r Co. conditions are exceptionally ful. We have enjoyed a tremendous up in business. We have orders for 00 cars for March delivery and we nearly 90,000 more for April. That ns that nearly every car and bit of hed stock on hand when the depres- set in has been sold. The time is not ff when we will begin full operation roduce new cars and new parts to care of the host of orders that come ng in."

y years ago

iticians who gaily voted $250 mil- for the relief of farmers through the ral Farm Board counted upon curry- favor with their constitutents. . . . ad of gratitude, farmers express in- ation. Wheat has fallen to the lowest s of the century. Governmental ting of cotton has resulted in the d using less American cotton and e foreign-grown cotton for the first in history . . . without bringing it a satisfactory price for the home- n staple. Agricultural prices as a le have tumbled in twelve months , far more than the average for other modities, with grain alone down 32%. And now comes the announcement that the Farm Board will not even make an attempt to bolster up next season's wheat crop."

In one way President Herbert Hoover was before his time: In June 1929, early in his administration, he signed the Agricultural Marketing Act under which was set up the Federal Farm Board—the first of the U.S.' frequent, costly and usually futile efforts to support farm prices above what farmers saw as ruinously low levels. Prices were so low largely because U.S. agriculture, profitable and expanding for generations before World War I and down to 1920, thereafter faced shrinking markets (as war-torn nations recovered) and growing world competition while saddled with rising costs and war-bloated capitalization.

A tart 1931 view of the first U.S. farm price support effort

The deceptively simple theory behind the Federal Farm Board was that it could maintain an "orderly" market by buying and storing surplus crops in a year of glut and selling in a year of famine. The main flaws in the theory are two: Any price considered "reasonable" by producers is almost always high enough to encourage self-defeating new production; and second, any major crop market is shaped by forces far more complex than a simple oscillation between fat and lean years. The members of the original Farm Board recognized those truths by halting its buying programs in 1931 and going out of existence in 1933, after spending—or losing—over $180 million of the Board's original $500 million kitty.

But many years and billions of dollars later, those lessons are still being learned in commodity "stabilization" operations around the world. *(For an example, see* "Into the grinder," FORBES, *Feb. 2.)*

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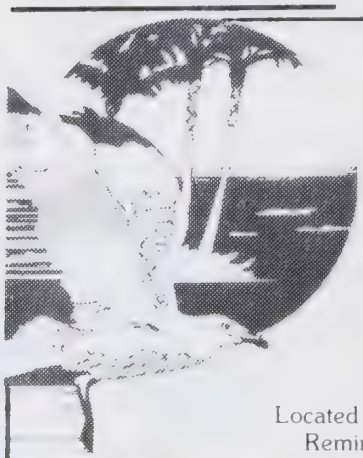

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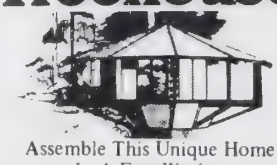

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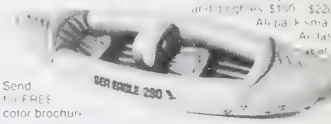

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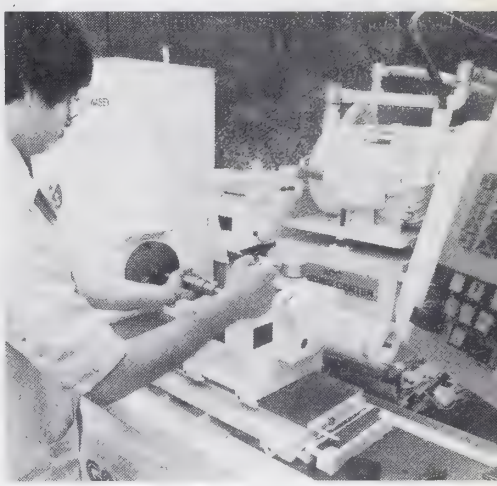

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April 27, 1981
Volume 127, Number 9

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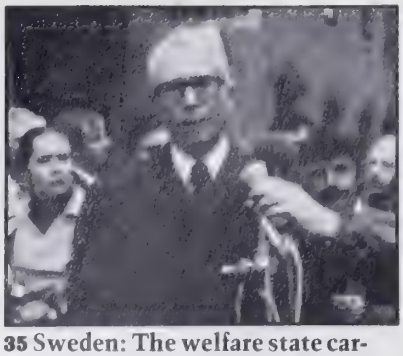
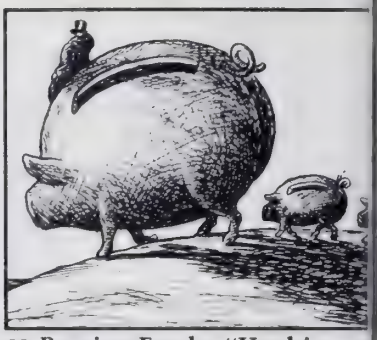


35 Sweden: The welfare state carried to its logical conclusion, the society that is the model for democratic socialism around the world, may have come to the end of the road.

58 Condec Corp. Its prize subsidiary may finally turn this ugly duckling into a corporate swan.



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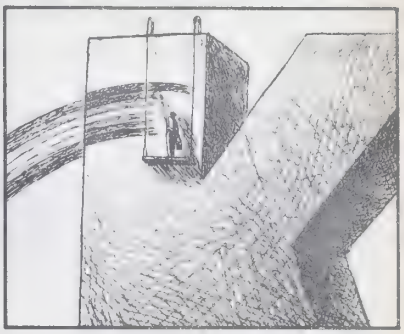

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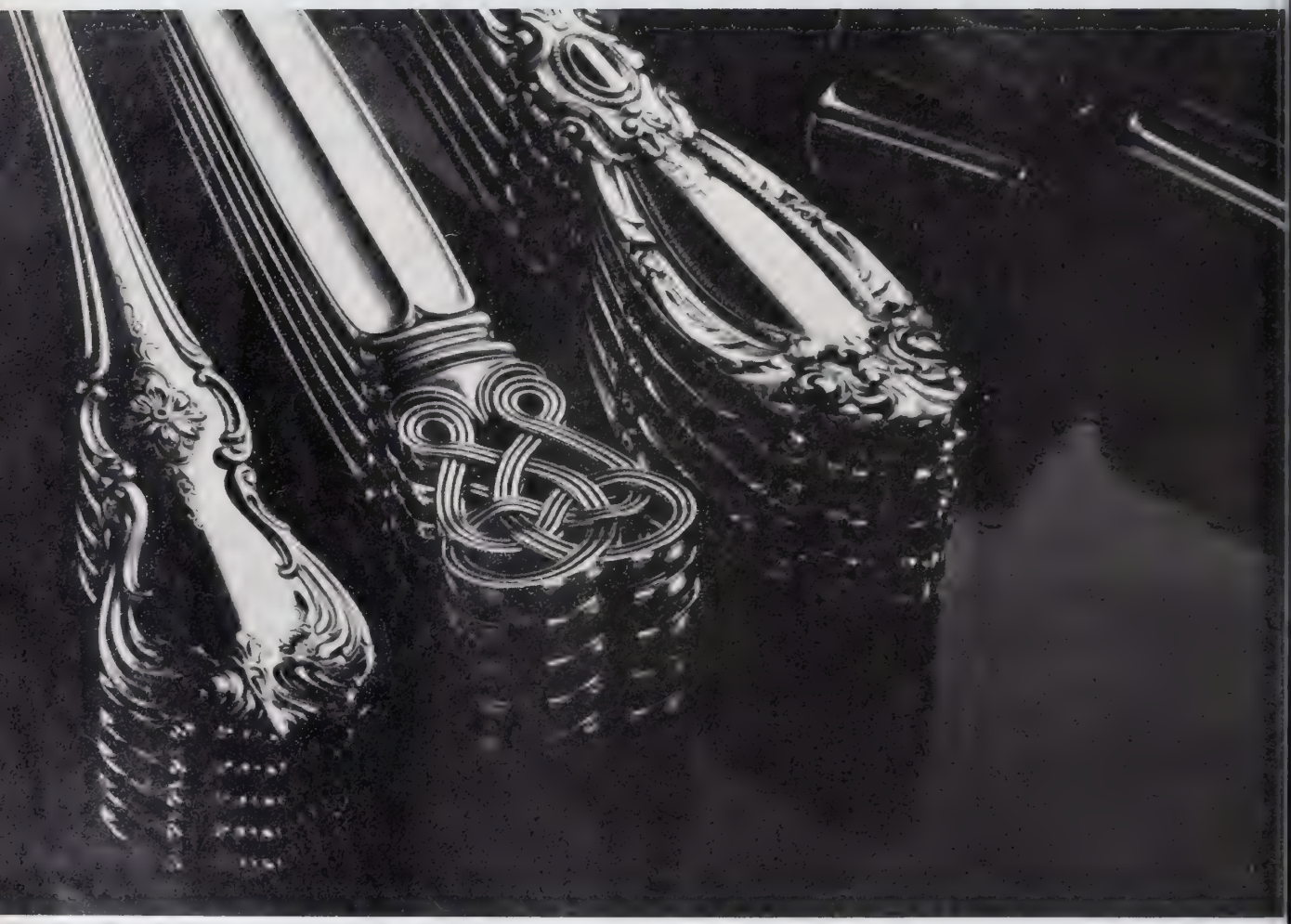
"WHY EVERY COM
SHOULD BE
ON THE SELECTION



PERRY UNIVAC's UNIS system helps to provide better customer service and cost control to Towle, a manufacturer and distributor of a
nge of giftware product lines including sterling silver flatware, silver plated hollowware, crystal, glassware, china and housewares.

When Leonard Florence, President and CEO, Towle Mfg. Co., asked SPERRY UNIVAC to elp satisfy their information processing needs, we did something we do better than anyone else in ou usiness—we listened!

"I'm no computer expert. But I am an expert when it comes to knowing what my business needs the way of information and control. And through my people, I told the folks at SPERRY NIVAC.

"I needed a system that could help us keep track of all production and distribution operations of ome 20,000 different items. And my people need accurate, current and timely information. At all

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Leonard Florence,
President and CEO, Towle
Manufacturing Company.

npany levels and locations. Because they have to make quick, well-rmed decisions."

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- Greater efficiency in daily tracking of thousands of inventory transactions.
- A complete and accurate accounting of work-in-process, allowing for updating of product uirements to keep pace with demand.
- The ability to review and modify costs of all production and inventory items—a job that used to e weeks—in less than 24 hours.
- Improved customer service through faster response time.

But the true test of the importance of listening first came in a follow-up report soon after allation. In the words of Leonard Florence, "I can't envision another computer system that uld have worked so well to meet our information processing needs. Without the SPERRY IVAC 1100/60 and UNIS SYSTEMS, our near- and long-term growth plans might never have n achieved."

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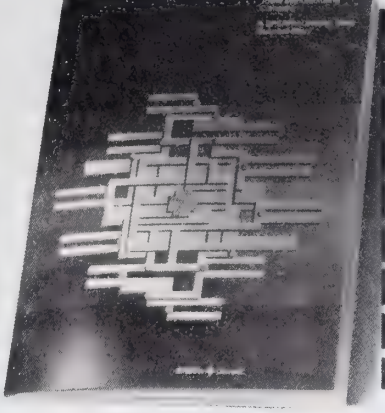

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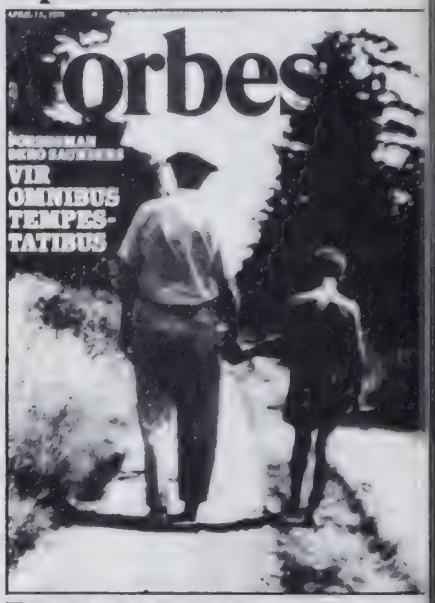
Side Lines

Vir omnibus tempestatibus

You won't find this FORBES cover on a newsstand or in your mailbox. A few dozen were printed to mark the retirement last month of our veteran Executive Editor Dero Ames Saunders, 67, after 21 years at the magazine. For those who have forgotten or never knew Latin, *vir omnibus tempestatibus* translates roughly as: a man for all seasons. It's apt. Dero Saunders has an encyclopedic knowledge of business, fine editing skills and a vast store of illustrative anecdotes. Born in Starkville, Miss., and educated at Dartmouth, Saunders, like many southerners, is a natural storyteller.

The picture, Saunders' favorite, was taken by his wife, Bea, in the early Fifties. She snapped him walking down a country road in Maine, hand in hand with his youngest son, Richard, then 6, now 34 and an eye surgeon specializing in children in Charleston, S.C. For us at FORBES, this snapshot has a symbolic meaning: His most important and lasting role at the magazine was as a guide for the young: It was his job to select from the hundreds of job applications we get every year. After picking the most talented, Saunders continued the relationship, turning ambitious young journalists into experienced business writers. But we needn't talk about Dero Saunders in the past tense. Though formally retired, he will remain as a Contributing Editor and write our Flashbacks feature plus occasional other stories.

Succeeding Saunders as Executive Editor is Jefferson Grigsby, 50. Grigsby, a native of Denver and a graduate of the University of Colorado at Boulder, began his journalistic career on the Sterli Colo. *Journal Advocate*, switched to U ed Press International and became M aging Editor for News at UPI in 19 Grigsby joined FORBES in 1976 after ing spotted by his predecessor, D Saunders. Now that's continuity.



FORBES' Grigsby (left) *and Saunders*

The Barrett collection

The models of Burlington Northern rolling stock that illustrate the cover story in this issue *(see p. 120)* are the property of Clay Barrett, 20, a young New Yorker who owns a large collection of the stuff. The reason BN models are hard to find in New York is simple. "They rarely hit shelves," says Barrett, a business m who works part time at Polk's, Manh tan's great hobby store. "I buy them soon as they come in."

Model train hobbyist Clay Barrett

Dead end?

Can the human race stand prosperi That question keeps popping up as y read Jerry Flint's story, "How Swede middle road becomes a dead en Against great odds, Sweden built a mane and prosperous society only to f its people stopped working hard wl comfort and security no longer depen on effort and talent. In a way, the Sw ish story is the story of the entire ind trialized world. It starts on page 35.

James W. Michaels
Editor

Even though my kids can't always count on me for new math, they can count on me for a secure future. And it feels great.

I just bought a Whole Life Policy from Metropolitan. It gives my family permanent protection. And the premiums won't ever increase.

But it gives me even more. That's why my policy is called Whole Life *Plus*.* Metropolitan offers me one-third more coverage than they've ever offered before at the same premium.

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LIFE/HEALTH/AUTO/HOME/RETIREMENT

Oil in the crystal ball

The chrome-domes and the hard hats are ending up conflicting signals about the uture role of imported oil in fueling Amerca. Exxon's pragmatists, whose oil intelligence is rated among the best in the world, ay in their latest analysis that use of outide oil—39% of U.S. supply in 1980—will limb to 52% by 1990 and then decline to 7% to 30% by 2000, depending on how he synthetic fuels program fares. The Mellon Institute's Energy Productivity Center, a Washington-based study group vith federal and corporate support, thinks mports could be cut to near zero by 2000 y concentrating on improving the effiiency and cost of producing energy, rathr than on the price and availability of oil tself. The divergence lies in the assumpions. To make the improvements in conersion, the Mellon Institute postulates, vould, for one thing, take enormous mounts of capital—$364 billion to imrove auto fuel economy, $249 billion for ndustrial gear, $100 billion for home insuation. "Energy is fundamentally an ecoomic problem, not a political problem," ays the Institute's Steven Carhart. Polics, however, won't go away and the Reaan Administration is concentrating its nergy policies on fuel, not conservation nd cheaper production of energy. Exxon's arthier projections call for conventional omestic production to drop from 1980's 0.6 million barrels a day to 7.1 million by 990, then recover to 7.8 million because f new exploration and recovery techiques. By 2000, its analysts see demand asing from last year's 17.5 million barrels day to 15.9 million, a third of it met from xisting reserves, a third from new oil, the est from coal and oil conversion.

An outside-inside view

Alan Greenspan, Ronald Reagan's unoffiial economic guru, thinks the Presient's chances of getting most of his nti-inflation program through Congress re good because he asked for so much. y demanding $50 billion in cuts, he ays, Reagan will get about $40 billion. If he'd asked for $15 billion, he'd have otten $3.67." The reason, says Greenpan, is that because so many special nterest groups are being hit, they can't ocus on individual congressmen, and he latter, given the present political clinate, can score points (and avoid retalition) by voting for the whole Reagan ackage. But Greenspan suspects the White House will have to get even tough-r to bring inflation under real control, erhaps by halting the cycle of automatic ost-of-living increases in Social Security nd other benefit programs. Interest ates will be kept high, he theorizes, by the psychology of lenders still convinced inflation will average 10% for the next decade.

Best face forward

Face-saving in the executive suite is driving more and more managers to plastic surgeons. According to Dr. Peter Bela Fodor, a New York cosmetic surgeon and medical director of a trade group called Facts About the Cosmetic Experience (FACE, naturally), as many as 20% of those undergoing such procedures today are successful businessmen. Five years ago, he says, businessmen would have

Benito Mussolini

Does a leader lead with his chin?

shied away from any such thing. The most common operation for men of all ages is still the nose job, with various age-concealing tucks around the eyelids and neck coming in second. One new wrinkle gaining in popularity, however, is chin remodeling, for those who feel insufficiently jut-jawed on the bridge. "There are men who have an assertive personality but a receding chin," Fodor says. "They don't get the feedback from the body they feel entitled to." The chin job, which costs anywhere from $1,000 to $2,000, involves constructing a reasonably firm silicone insert, which is then installed from inside the mouth.

Money talks

Will cash in the tenant's hand work better than a government check to the landlord in helping low-income Americans find housing? Rand Corp., the California think tank, has tested that idea for the Department of Housing & Urban Development with five-year programs in South Bend, Ind. and Green Bay, Wis. Under this scheme, the government gives funds directly to the tenant, who then makes his or her own deal with landlord. Rand compared results wit larger national program begun in 19 where the homehunter lays out a fou of the family income for rent and Un Sam pays the difference on housing t either HUD or local authorities barg for. In South Bend and Green Bay, cording to C. Peter Rydell of Rand, participants (20,000 in five years) exp enced price increases of 1.2% while gotiating on their own. HUD's natio program (serving 520,000 low-inco families in 1979) produced hikes of 26 If the bigger system were run under rules that Rand followed in the exp ments, Rydell thinks about $210 milli that now goes into landlords' pock could be recaptured.

Hold the mayo!

Dieters who can't resist a craving fo superhamburger can resolve their dile ma by skipping the fancy trimmings, nutritionists at the U.S. Agricultural search Center. The Beltsville, Md. perts studied 50 items sold by McD ald's, Burger King and Burger C (which serve up 1% of all food eaten the U.S.). The Special Sauce on a Mac, they found, adds 105 calories; tar sauce on a Burger Chef Skipper's Tr has 81 calories; and the mayonnaise o Burger King Whopper piles on 159. T feds are fascinated by fast foods (Ame cans now spend about 25% of their fo dollars on out-of-home meals a snacks), but haven't yet figured out th nutritional role. The nutritionists know Americans are consuming fev calories, but 80 million are still ov weight. Even teenagers, they say, ha cut down. The 18-year-old youth w downed 3,000 calories a day in 1965 n gets by on 2,700; the 14-year-old girl w ate 2,150 calories daily in 1965 is n down to 1,920. The cutbacks are in p teins and carbohydrates, with Ame cans passing up bread, cereals and m for soft drinks, alcohol, punches and p fab desserts. Vitamins are also in, w vitamin C consumption alone up 35% the last dozen years. Shoppers are pi ing up more meat, poultry and fish less pork, luncheon meats, eggs a beans. At the vegetable bins, the tum away from potatoes in favor of spina kale, broccoli and mustard greens.

Hidden treasure

Florida, land of condominiums, cold (a hot) cash and crime, has come up wit gimmick prompted by all three: the t ny-weeny condo, a 3-x-10-x-24-inch sa deposit box. Developed by Kay Byrne Miami real estate broker, ConSec

Pan Am puts the middle seat out of business.

The loss, however, is your gain.

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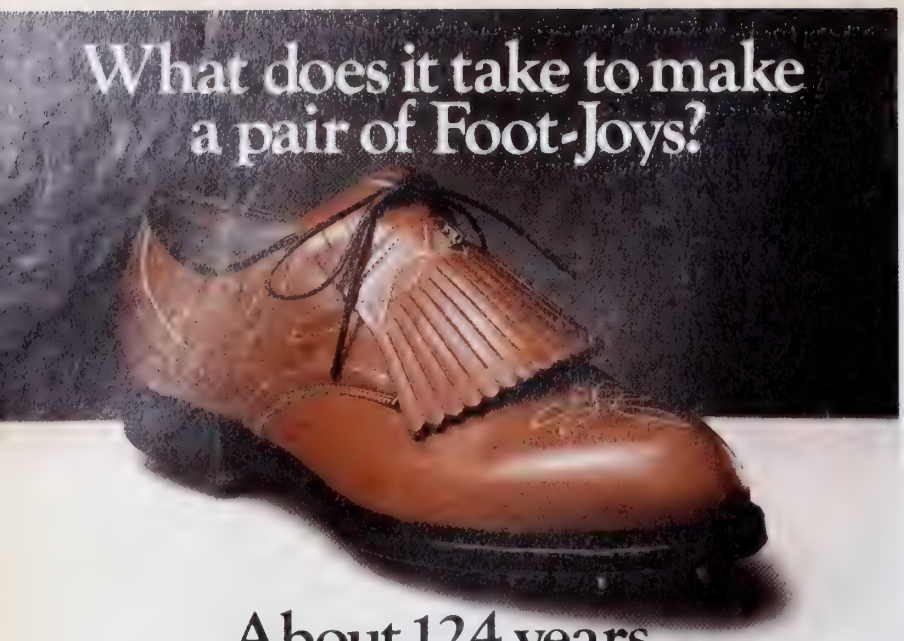
Say hello to Pan Am.

What does it take to make a pair of Foot-Joys?



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Such quality is worth its price. From the Meridian Collection.

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Trends

plans to put 7,000 to 10,000 vault spa in a new building in Coral Gables. got the idea, she says, from wealthy c tomers who complained about the d culty of getting large safe deposit bo without as much as a four-year w (One local bank president says: "The a shortage in every bank down her have a waiting list and people aren't e asking how much.") ConSecur's bo ranging up to spaces large enough for and other treasures, will sell for $39 $4,000, with a $75-a-year maintena fee. In contrast to bank boxes, these be accessible round-the-clock, and un the condo plan owners can use, ren sell them. Besides local custom broker Byrne also expects business fr the well-heeled Latins who flock to ami. Heady over the prospects, she her local backers are talking about panding—after breaking ground for t first building in June—into Mi Beach, Boca Raton and, perhaps, ac the country.

Economic intelligence

American exports, which the Rea Administration is banking on to bo the economy, may not prove much h according to a new analysis by the C tral Intelligence Agency. "Given the simistic outlook for recovery in world economy in 1981, little or growth in U.S. export volume is like the CIA concluded. Last year, exports go up by 6.7% and the country's n chandise trade deficit dropped fr $29.4 billion in 1979 to $27.4 billi (The balance of payments, which cludes banking, insurance and other visible" exports, showed a small sur for 1980.) Then things turned gloc toward the end of the year, the points out, when the dollar gath strength and the prices of Ameri goods abroad began to rise.

Moving day

Golf counts, talent and labor count, e gy counts, but the single most import factor in a company's plant-location cision is local taxes. That is the con sion of Alexander Grant & Co., the C cago-based accounting firm, after a vey of manufacturers. Mississippi, t from the bottom on the tax scale, the number one location site, G found, because of its high score on o counts—energy costs, low union m bership and low wages. Right beh Mississippi in the overall standings w the Carolinas, North Dakota and Ark sas. At the bottom of the list was Mi gan, which stood first in union clout.

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Follow-Through

Geared down, geared up

A year or so ago one of the few American manufacturing industries visible that had not only countered but also routed foreign competition was the bicycle business in general and Dayton, Ohio's Huffy Corp. in particular, FORBES discovered *(Dec. 24, 1979)*. In 1972, imported bikes had 37% of the market; in 1979 they had 16%. Huffy had pumped up its share from 23% in 1975 to 35% by 1980. The cheaper dollar had helped by making imports more expensive, but the real answer was the simple strategy of building competitive products at lower costs. "These days," Huffy's chief executive, Stuart Northrop, told FORBES in 1979, "the American bike industry is the world's low-cost source of bikes for the American market." American manufacturers had also benefited from a major marketing change, which saw the bulk of the bike business shift from bicycle shops to major retailers. By 1979 the Sears, Roebucks, the K marts, Caldors, J.C. Penneys and other big sellers had 75% of the market, leaving the bike shops, which once held almost half, to live on the premium-priced two-wheelers.

Last year, however, the bike lanes turned bumpy, starting with the cr crunch in May. Bike shipments w 10.8 million in 1979, 9 million of th domestic products, 1.8 million impo In 1980, the total dropped to 9 millio million home-grown, while imp went up to 2 million units. And for 19 according to Phil Burke of the Bicy Manufacturers Association, while bikes are expected to climb back to million, imports will continue to sh strength and sell 2.3 million.

Chairman Stuart Northrop of Huffy Corp.
Wheeling in a bumpy bike lane.

Nonetheless, Northrop says, the b ness did well last year, considering 1980 economic environment. For thing, price increases kept dollar volu fairly steady despite the drop in unit sa For another, the credit squeeze forced industry to shrink inventories drastica The Huffy chairman figures the st cleared 700,000 bicycles off their ra and now, he says, will have "to buy a b for every one sold." Another reason domestic makers showed up poorly in statistics is that the premium-pri bikes, the major imports, kept mov briskly in the bike shops, just as h priced automobiles kept selling in showrooms. "Huffy makes Oldsmobi Chevrolets and Fords," Northrop s "We have no Ferraris."

Helping to boost the import figure and skewing the overall picture a littl was a strike last year at Schwinn, wh makes premium bikes. Making up that produced a big bulge in Schwi imports, which carried over into year. The company brought in 230, bikes from overseas in 1980, BM Burke says, and its 1981 plans call half the 900,000 units it hopes to sell year to come from abroad.

So Huffy and Northrop are pedalin undaunted, despite the results of the three months of 1981. Unit sales were 15% from 1980, mirroring the indu slide, and dollar sales skidded 10% f the $61 million of a year earlier. Northrop says recent orders are up sh ly and he predicts the next three mor will match or top the 1980 figure of million. He and the rest of the indu are banking on adult bikers to keep th growing. (The children's market, he s is stable.) The bicycle, in the indust view, can still be the commuter veh of the future, combining transportat economy and recreation. As BM Burke enthuses: "You can't go buy a d en eggs with a tennis racket."

Around the middleman

Two summers ago, entrepreneurs w rushing to redraw the retailing map trying to cluster the 10,000 factory ou stores in the U.S.—those out-of-the- locations where manufacturers sold

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So call us. We're just as quick and reliable at picking up the phone.

EMERY

AT THE RIGHT PLACE, AT THE RIGHT TIME.

Follow-Through

tly at rock-bottom prices—into shop-
g malls. Skyrocketing gasoline prices,
orted FORBES *(Aug. 6, 1979)*, were the
ncipal reason, because they curtailed
bargain hunter's range. Now, with
even higher and consumers even
re price-conscious, comes a still
ver concept, outlet "department
res" where dozens of manufacturers
l peddle their wares in leased space
der one roof. A pioneer of the malls,
arles E. Shutter, is pushing such a
nge, saying: "The day of the depart-
nt store is questionable and mall de-
opment has stopped."

Manufacturers, Shutter says, are frus-
ted by slow-paying retailers and he
ns to offer them shorter collection peri-
, improved cash flow and less need for
h-priced financing *via* what he calls
anufacturers' Hyper-Marché." "The
gainers here are the consumers and the
nufacturers," he says. "The retailers
l hate it." For their leasing fees, Shutter
l provide security, maintenance and all
nagement services, including check-
and inventory based on NCR's new
rcom 2140 computer system. (Tenants
l supply their own stock clerks and
s personnel.)

hutter will open his first Mfgrs'
per-Marché (the "g" in the abbrevia-
n is unexplained and, presumably, si-
t) this June in Williamsport, Penna.
he plans four more by the end of the
r, including one in York, Penna. and
ther in Springfield, Mass. Part of the
ncing for the 114,000-square-foot
lliamsport setup is coming from Am-
Jack Ltd., a subsidiary of State Farm
tual Automobile Insurance.

Malls may be at zero population
wth in Shutter's view but he isn't
ting them off. He was involved in the
gely successful one that opened in
ding, Penna. in 1972. He is also the
ncipal owner of a similar operation in
ynesboro, Penna. that he built with
wife and children. That installation,
soft-spoken Marylander says, aver-
s more than twice the $125 per square
t in sales that a conventional shop-
g mall generates.

oft-spoken as he is, Shutter likes to talk
. In 1979 he outlined to FORBES grandi-
plans for a $25 million, 900,000-
are-foot outlet mall outside Williams-
g, Va., and predicted that the historic
n's 3 million tourists annually would
an sales of $300 million the first year.
ring interest rates put that project on
d and he now talks of a more modest
there for next year. Meanwhile he is
casting $20 million for his William-
rt Hyper-Marché in its first year (it is
re than 50% leased). And, he insists,
n not a nut. I'm a realist."

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Readers Say

Don't blame OPEC

SIR: Many people in this land seem to think our natural energy sources are boundless. I'm not against using coal; just against suggesting we have an endless supply of it.

We didn't force the Arabs to make us dependent upon their oil. We're the ones who are the gluttons, and to blame the energy crisis on the Arabs is like blaming the baker for making delicious rolls.

—Edward Neparko
Professor, Department of Chemistry, Southwestern Oklahoma State University
Weatherford, Okla.

Hurting the small guy

SIR: The windfall profits tax was enacted in such a way as to penalize the small, independent drillers before any profits at all have been reached. Surely the law should be modified to allow some amount of minimum production before the tax is applied. How can there be a windfall profit before even operating expenses have been recovered?

—Archie Carroll
Charlotte, N.C.

Better than Reggie

SIR: Since you once flatly predicted "Teddy Kennedy will take the Democratic nomination from Carter, and he'll handily dispose of the Republican nominee by a margin wider than any since Johnson whopped Goldwater in 1964," why don't you publicly predict the pending failure of President Reagan's approach to our economic and political future, thus assuring its success?

Actually, I sure do admire your courage. In checking the last couple dozen issues of FORBES, you are pretty darned close to being right more than half the time. Can you imagine how much Reggie Jackson would be worth to the Yankees if he had a batting average like yours?

—Ken Allen
Wenatchee, Wash.

Not so negative

SIR: A negative working capital figure and a 60% debt to total capital ratio does not constitute the type of balance sheet risk for Leaseway Transportation ("You can't complain," *Mar. 30*) that you would generally attribute to such statistics.

Accounting conventions require debt due within one year to be classified as a current liability, while the revenue-producing equipment is classified as a non-current fixed asset. In our case, the enue-producing equipment has m more of the characteristics of inven than fixed assets.

The debt is certainly not excessiv a company such as ours, where our as have an average 42-month service The cash flows are so very high that can support significantly more debt t could, for example, a manufactu company whose average life of eq ment might run 10 to 15 years. rating agencies gave us an "A" rating

—Gerald C. McDonough
Executive Vice President, Leaseway Transportation
Cleveland, Ohio

Josten's is independent

SIR: In your article "Is Carnation disc tented?" *(Apr. 13)*, you state, "In 1 Olson paid $32 million in stock for dianapolis-based Herff Jones Co., $43.5 million (sales) manufacturer of ten's class rings." The reference to ten's is not correct. Josten's is [indep dent]. It is the nation's largest manu turer of high school and college c rings. No class rings for U.S. stude bearing the Josten's trademark are ma factured outside our facilities.

—Ellis F. Bullock Jr.
Director of Public Affairs, Josten's
Minneapolis, Minn.

Give 'em a freebie?

SIR: Re the White House request fo complimentary subscription *(Fact & Comment, Mar. 30)*. In order to k abreast of diverse viewpoints, we wo very much like to receive a subscript to FORBES magazine. However, as know, we are in an Administration t advocates austerity. Therefore, we wo very much appreciate it if we could ceive a complimentary subscripti Since I am already paid up until 19 just stretch it four more years.

—W.M. Buescher
Special Assistant to Myself, Pigeon Forge, Tenn.

SIR: The White House should subsci and transfer one of those two Spe Assistants to more productive tasks.

—Don Miller
Carmel, Calif.

SIR: Did they write to Mr. Coffee complimentary brewers or Mr. Burli ton for complimentary carpeting?

—Jane Highley
Crown Point, Ind.

: You should have felt complimented it the White House selects FORBES gazine. . . .
y Lacks
adena, Calif.

Ve do.—MSF

: Since I feel it is important for the sident of the U.S. to have the best ormation available, I hope you will cept my check (enclosed) for $60 to ver the cost of a three-year subscrip- n. Please present it with my compli- nts to the President.
seph M. Magnelli III
sburgh, Penna.

Ve have.—MSF

A car for $12—and less

: " . . . and this cartoon's an exaggera- n" *(Fact and Comment, Mar. 16)* is te true. In 1936 three other freshmen d I chipped in $3 each to take posses- n of a 1921 Ford touring sedan. It ved us faithfully for two years, earning upkeep as a rental car for movie dates d other activities. When the "Vibrate cial" gave out, we simply abandoned . I regret now we did not show more reciation.
ee B. Cusick
mert Park, Calif.

: In 1933 we paid $10, half of which s represented by my old bicycle. The er half, paid by my partner, was cash. ere was a gas war that summer. It got wn to 13 cents a gallon, but we never med to have enough money to fill the k completely.
illiam F. Barber
orado Springs, Colo.

: You say, "This cartoon character rpaid." So did you. In 1928 in western nsas an ordinary Model T went for $5. e fancy convertibles were $7.50. I ldn't afford either one.
oyd P. Elliott
eka, Kans.

He was there, but . . .

: Al Haig was never superintendent at st Point *(Trends, Mar. 2)*. He served o tours in the Tactical Department, ce as a Tactical Officer and the other e as the Officer Commander of a ca- regiment.
mes H. Drum
onel, U.S. Army (Ret.),
shington, D.C.

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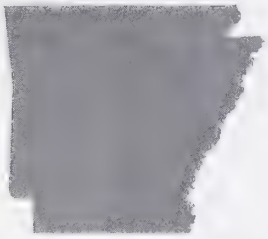

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Performance of the Cressida is also impressive. Both the Cressida Sedan and 5-Door Wagon feature electronic fuel injection and an innovative 4-speed automatic overdrive transmission, to enhance the new 2.8 liter engine's efficiency. MacPherson strut front suspension assures a soft, controlled ride.

The Toyota Cressida. If you're wondering why you should buy a luxury car from a company famous for economy cars, you need do only one thing. Drive a Cressida, and feel how sumptuous a Toyota can be.

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

QUITE RIGHT TO AX DUTY-FREE IMPORTS FROM THESE FIVE

t wouldn't occur to many Americans, who've noticed that much of what they buy bears tags of origin from Taiwan, ng Kong, Mexico, Brazil and South Korea, that these coun- es had been given over $4 billion in special U.S. tariff emptions. These just-ended benefits were aimed at helping eveloping countries."

As many U.S. consumers, manufacturers and importers can tify, both Taiwan and Hong Kong are way ahead of the U.S. on a cost (and often quality) basis. Mexico now hangs toug with us on its oil and gas while making no effort to curb th export of its unemployed citizenry; South Korea knocks off U. construction firms time and again for multibillions in Midd East contracts; and Brazil says nuts to most of our exports.

Free trade is one thing (a blamed important one), but thos who are capably clobbering us in the marketplace should sett for equality, not subsidy, when it comes to the U.S. market.

DEEP-SIXING THE PROPOSED "LAW OF THE SEA"

at least putting it on ice is another Reagan Administration ion taken just in the nick of time.

We were all going along with vague conceptions of do- ding, under the bleatings of Former Everything Elliot Rich- son, that everything under the seas should be under the ntrol of the 152 (count-of-the-moment) countries with a N. vote.

Naturally the vast costs of finding, recovering and processing h undersea minerals as might be found, might be recover- e, might be processable would be the duty and responsibility the U.S. and the other relative handful of nations with the uisite technological and financial knowhow.

The other 140 or so, by majority vote, anteing up none of the costs and none of the risks, would decide who gets what of th haul—if any.

Some deal.

If we spend billions to find out if something under the fre seas is recoverable and useful at a feasible marketing cost, w or whosoever does it are perfectly capable of deciding th extent to which we or they might increase aid to underdeve oped countries or increase funding of the World Bank or ho best to get sustenance to starving Africans.

Leave all undersea decisions to the majority vote of the like of Guyana, Iran, Cuba, Albania, South Yemen and Libya?

Sure.

And thus be sure no one, nowhere benefits.

FOR ZIMBABWE'S MUGABE, A NOBEL PEACE PRIZE IS IN ORDER

Prime Minister Mugabe's accomplishment in avoiding what all odds should have been a fiery addition to the African ldron is a beacon to the world.

That the U.S. will up aid to the black government of trans- med Rhodesia is right and wise. Much of the money is being used to repurchase millions of acres of white-owned aban doned farmland for native distribution.

The Nobel prize would immensely strengthen Mugabe hand at home, immensely aid him to keep doing what shoul win him that noble recognition.

TOP DEFENSE HEADKNOCKERS TOP-NOTCH; NAVY HEAD NEEDS KNOCKING

Defense Secretary Caspar Weinberger is a first-rate Reagan k. That he's had no direct previous military involvement— t's a disadvantage at all—is more than offset by his proven inability and his vast experience with Capitol Hill and the bureaucracy in his previous Cabineting. His tested budge cutting eye is beyond price since he will be in charge of th biggest projected U.S. military spending in peacetime. Give the need and present political climate, we could go wastefull

shooting off $billions in a myriad of even more complex "systems" at costs beyond estimating.

His chosen Deputy Secretary, Frank Carlucci, too, has a splendid track record through the D.C. jungles. And, importantly, as a former Deputy Director of the CIA, he's aware of the challenges, the scenarios and the stockpiles.

But what's with Navy Secretary John Lehman Jr.? First, he publicly knocks his Defense Secretary's highly intelligent awareness of the possibilities of MX missiles on surface ship it because, as former Navy Captain John Draim suggests, s unthinking Navy brass think it might have some effects on Trident program? Having thus established his expertise, Lehman goes on to urge the scrapping of existing arms acc with Russia. Maybe some untrepidatious soul in his o should remind the young (38) gentleman that others have appointed Secretaries of Defense and State.

PRUDENTIAL SAVED BACHE FROM CANADA'S BELZBERGS

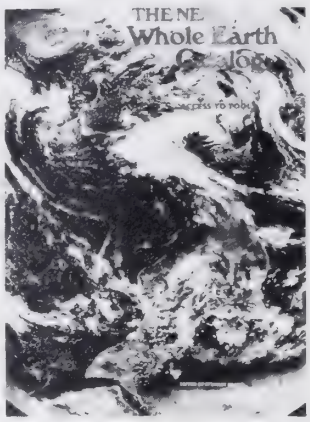
Now who's going to save Prudential from the sometimes bottomless pitfalls and costly pratfalls that have befallen so many experienced as well as new brokerage hands and heads?

"TO COPE WITH INFLATION, WHAT BOOK

would you most recommend?" I was asked by Chicago librarians' group. A twofold answer:

Any and all books, because if you are reading you're not spending—for entertainment, baby-sitters, gasoline, for records and tapes and for the multiplying gizmos that provide super sound, etc., *ad infinitum*. Reading taxes only the eyes and at no cost fuels the mind.

In other words, *not* spending helps lessen inflation's impact on individuals. If enough of us spent more time reading and less time spending, what's to inflate with?



A specific recommendation for an inflat coping book?

The Next Whole Earth Catalog. With help of this book, you yourself can do plu ing (of sorts), fix the house and everythin it, tinker with the car, "put up" your gard fruits and vegetables.

As for all those Doomsday bestsellers, fo them. The only ones to benefit from th move-out-of-cities-into-country-cellars-ful canned-sardines-and-john-paper books are authors themselves—in royalties.

TO STAY IN THE PICTURE, DAVEY STOCKMAN

should stand out of or at least to the side in a few photographs. The brilliant job he's doing doesn't need the constant hype of flashbulbs. Such overexposure exposes him to the multiplying slings and arrows of jealous "Get Davey" legions. Our Dav King of the Wild Budget Frontier and we want to keep him of fusillade range, keep him roaming the Capital Range.

MOVIES

Back Roads—In pooling their efforts, two chronic losers double their losses at every turn, but Sally Field and Tommy Lee Jones are total winners in what will turn out to be the year's most frolicking, winsome comedy. **Dogs of War**—Doesn't really answer *why* mercenaries—particularly Americans—hire out for wars in unfamiliar, small African or Central American countries, but it's a gripping, near-documentary picture of the whos and hows of these for-hire fighters. **Every Man for Himself**—Frankly, I'll never know what the point and purpose of this movie is—even though reviewers described what it's supposedly about. **The First Family**—Despite the utterness of some of the absurdities and some obscenity overkill, there's just no way anyone can not laugh out loud and often at this movie. **The Great Santini**—About an overMarining Marine father who fails to mess up the Corps or his family. Superb. **La Cage Aux Folles II**—The totally unforeseen success of the first *La Cage*, of course, has led to *Aux Folles II*. But this infinitely more expensive production is a bit heavy on the light whimsy about an aging, engaging gay couple that made the first such good fun. **Modern Romance**—The nearest thing to a successful feature movie monolog yet. Though some scenes, such as the High, are dragged out too long, the dialog is loaded laughs. **The Postman Always Rings Twice**—Only 20 utes less would improve this early 1930s American trag where murder paid off with only a few fleeting moment happiness before their hearts and bodies burst. A real grip

Raging Bull—None of the so-called Horror Movie genre come near to this one for real horror in the brutal life of middleweight champion Jake LaMotta and all those touched—literally punching and slapping everyone he love fought. The language is as unmitigatedly foul as the "her psychopathic temper. **Return of the Secaucus 7**—For t of us twice their age, it's fascinating to see in this superb 30-year-olds contrasting themselves now with their dream 20-year-olds. I'd forgotten that turning 30 is a traum experience.

* * *

America—This Radio City Music Hall review is in spectacular, but paying lively musical tribute to the 50 st tends to make one wish one-third of 'em—*any* one-thi could have been condensed into one Number. To see Music Hall, a real national asset, alive and Rocketting, most happy thing.

HAS THE NUBBIN OF REAGAN'S BUDGET PLAN EVER BEEN BETTER PUT?

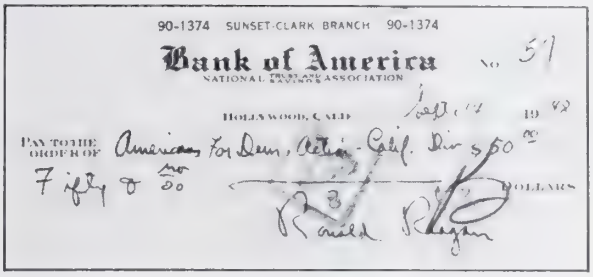
'We've a question for our media colleagues: You talk of agan's budget-cutting as hurting the poor, but wouldn't it be re accurate to say that the Reagan program hurts the *eaucracy,* which presumes to speak in the name of the or? What really hurts the poor is the lack of job-creating nestic investment. Since the Reagan program is aimed at alleviating this problem, why not call the Reagan progra "pro-thrift" and the Democratic opposition "pro-bureaucr cy"? *Clarity of language.* Is it too much to ask of headlin writers and those who compose the lines that anchorme utter?"

—Editor James Michaels, FORBES, *(Mar. 16, p. 6*

CHECK ON MISTAKES OF YOUNGER YEARS

President Reagan's positive good humor, his buoyant atti- le doubtless contribute as much to his swift recovery as his ellent physical shape. The President's smile, humor *and* the nciples that shape his genial demeanor spring from deep nvictions. The readiness of his wit, revealed anew as he was eeled to the operating room, has been oft displayed.

Recently, when some of his Far (from) Right supporters and vsmen got on the President's back for naming David Stock- n to head the Office of Management & Budget on the unds that in the 1960s he'd been an aggressive antiwar ivist, Reagan's rejoinder was beautiful, really beautiful: "I nember some of my own views when I was quite young. For ven's sake, I was even a Democrat."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Ronald Reagan

Herewith, signed proof (which was recently acquired for th FORBES collection of historical material).

Instead of being politically bruised, Mr. Reagan put th whole bit in perspective. He made an irrefutable positive out a potential negative.

AGE

marinates those who live long enough to have some.

WHETHER ONE ENDS UP A CYNIC

or a wise man depends on the seasoning added along the way

WILL TAX CUTS MEAN MORE INFLATION?

By M.S. Forbes Jr.

Many economists and politicos still worry that President Reagan's proposed tax cuts will lead to higher deficits and hence more inflation. They feel that the tax reductions should be scaled back.

Assume for a moment that they are right, that the deficit does indeed go higher. What would be the impact?

Contrary to conventional economic wisdom, there's not necessarily much correlation between a budget deficit and the rate of inflation, or between the deficit and the level of interest rates. A sizable budget shortfall *needn't* lead automatically to higher nominal interest rates.

The Japanese and Germans routinely run comparative deficits several times our own, yet both usually have rates of inflation below ours. Last year Japan's budgetary red ink was proportionately four times that of Washington's. But their inflation rate was under 4% and ours about 12%.

Why? Dr. David Meiselman, a noted economist at Virginia Polytechnic Institute who is being considered by the President for his Council of Economic Advisers, answers: "The size of the deficit is not the major factor in the inflation scenario. The way deficit is financed is central to any understanding of the inflation process."

Unlike the U.S., Germany and Japan normally finance their shortfalls without resorting to the printing press. It's paid for out of *existing* savings rather than by creating new money. "Neither Japan nor Germany," Meiselman notes, "penalizes saving and investment as severely as we do."

Even in the U.S., the correlations between deficits and inflation have not always been exact. Our budget deficits reached their highest levels in 1975-76, yet interest rates fell during that period, as did inflation.

Reagan's tax cuts will make it more worthwhile for people to work and invest. This will enlarge the tax base, thereby enabling the government to balance the budget by 1984 and at the same time increase the savings pool to finance the current shortfall.

To water down the Reagan tax proposals under the guise of fighting inflation will truly be an example of penny-wise, pound-foolish economics.

A WORTHY REDUCTION

Sociologists, psychologists, anthropologists and economists are angry about the Administration's decision to cut back by 80% federal research funds for the so-called social sciences. Their cries should be ignored.

Grantsmanship (where academics conjure up all sorts of projects with the sole object of extracting funds from Uncle Sam) has become a favorite fruitful undertaking. Last year $1 billion was spent to support research in the social sciences. What did we get for this outlay? Thousands of reports, only a tiny fraction of which anyone has read. Or could read. To make the most of the most pedestrian observations or to hide the fact they have nothing really to say, these "scientists" have made their writings utterly incomprehensible.

The *Princeton University Alumni Weekly* ran an article a few years ago called "In Praise of Stark Lucidity," which warned, "Ph.D. illiteracy—impenetrable prose by those who should know better—has become more the rule than the exception." It quoted an editor of a leading college textbook publisher: "I literally don't know what our authors are talking about sometimes. They use this terrible language. And their organization is so poor."

Two hundred million dollars to support these "Ph.D. illiterates" is probably still too much.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Liberals vs. Reality

Liberalism has tended to ignore soci-
ty's needs for savings; to take invest-
nent and the provision of productive
apacity for granted; and has generally
een more concerned with redistributing
he benefits and mitigating the costs of
conomic progress than with protecting
ts wellsprings. . . . Traditional liberal-
sm has an inherent inflationary bias
. . . The welfare state protects people
rom the unemployment that follows ex-
essive wage demands and excessive
rices, the bankruptcies that follow bad
nanagement or bad luck, the destitution
n old age that follows an improvident
ailure to prepare for it in advance. . . . A
ociety that attempts to protect every
ndividual from paying economic costs
nds up protecting nobody and burden-
ng everybody—with inflation.

—Alfred Kahn, former chairman, Council on Wage & Price Stability, *The Economist*

First Military Needs First

Poor maintenance and personnel
hortages have left a third of the armed
orces poorly prepared for combat. . . .
The Administration plans to] speed up
he conversion of fast commercial ships
o move a mechanized Army division
apidly to the Persian Gulf. If more mon-
y is to be spent, it should be buying
nother set of such ships, more muni-
ions, tactical missiles, spare parts and
aying bonuses to skilled personnel who
e-enlist. . . . Navy ships are languishing
n port for lack of 20,000 petty officers.

—*New York Times* editorial

Critical Assault

Writer Dotson Rader, describing how
e and Tennessee Williams were mugged
y five assailants in Key West:

"Tennessee told them he wanted to
ing them an old Baptist hymn, while I
vas trying to get him to run away with
ne. He told them, 'My name is Ten-
essee Williams and I do not retreat.'
o they beat me up. I asked Tennessee
f he knew who the men were, and he
aid, 'Five New York critics.' "

—*W*

Puny but Powerful Danger

The industrial democracies find and
roduce Qaddafi's oil; they pay high
rices for it; they compete for his con-
racts and sell him arms; and they toler-
te any abuse from him. The United States and its allies have stood by for more than 11 years as Qaddafi shamelessly violated every international norm. His provocations appear never to rouse the world to action; possibly, he will even be allowed to acquire nuclear weapons unchallenged. Qaddafi's government is shaky and his army puny, yet no one has seriously attempted to dislodge him from power. (Reportedly the Carter Administration nixed Sadat's ideas along these lines.)

—Daniel Pipes, *Wall Street Journal*

Coals to Newcastle

As Chessie's Jerry Golbrecht puts it: "We are hauling solid trainloads of steam coal right past American power plants that are still burning that expensive imported oil, with those trains on their way to ports where the coal will be dumped into ships bound for overseas utility plants." Rigid and often unrealistic environmental restrictions are, of course, responsible for this paradox. Making it possible for our trains to haul some of our coal to our own utilities ought to be a priority item for the new Administration.

—*Railway Age*

Crime High

Street [drug] addicts are no longer merely burglars who shy away from robbery and mayhem. The compelling need for money to support their habits drives them to violence, and often the effects of the drugs themselves lead to danger
encounters as well. Says one Los Ang
policeman: "We've got so many r
around—loonies, PCP dusters, pe
who are walking around with the illu
of superhuman strength and aren't af
of a policeman with a gun."

—*T*

If the top business scho could concentrate on a lit instruction in humility would be helpful. You j don't come fresh out of bu ness school ready to run large corporation.

—Reginald H. Jones, former G.E. chair

$8 Million per Senator

Critics of a new Senate office build
now under construction say its cost
risen to $200 million from the $50 r
lion first estimated in 1972. That wo
out to $8 million for each of the 25 se
tors who will be housed there upon
completion in late 1982 or early 1983

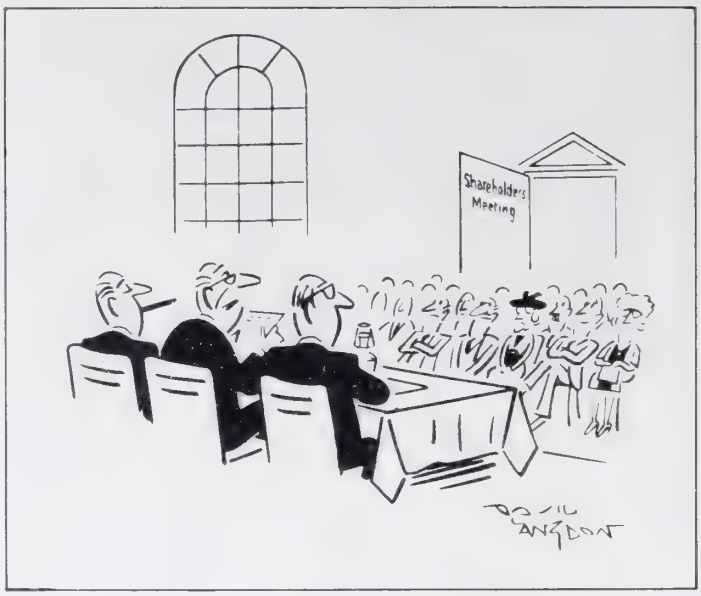
—*U.S. News & World Rep*

Can You Bear It?

SIRS: We went camping this week
and a bear ate my husband. I feel so
about it, because there were signs all o
the park that specifically said, "Do N
Feed the Bears." Do you think we'll
in trouble?

Widow Parker
Glacial Campgrounds
Yellowstone

—*National Lampo*



PUNCH

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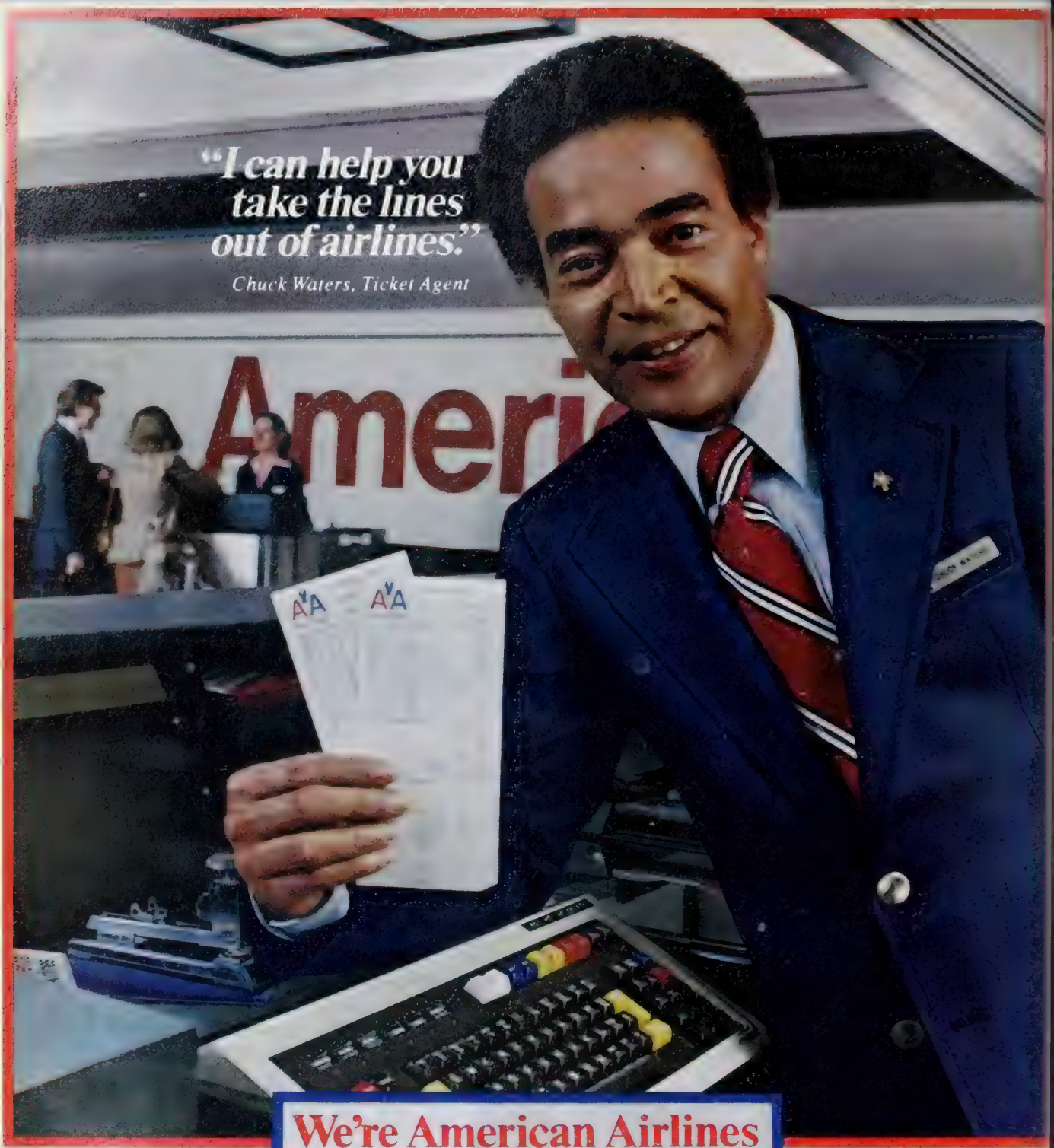

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FORBES' FORECASTS: ON TARGET

It's now sinking in that the Fed will continue pressing on the brakes

THIS IS AS GOOD A TIME AS ANY TO LOOK BACK OVER our assessments of t economy so far this year and see how close to the mark we have been.

In our issue dated Jan. 5, we warned readers to be prepared to live wi superhigh interest rates at least until late summer. The prime rate has cor down since then from a peak of 21½%, but seems to be sticking pret stubbornly at 17%-plus. Meanwhile, long-term interest rates have be creeping up to new heights after the bond market went into what the *W Street Journal* called a "free fall" in early April. Long-term Treasuri typified by the 12¾% bonds of 2010, sold at 110 at the start of the year a dropped below 96 in early April. It is now sinking in that the Fed w continue pressing on the brakes until such time as it can see actu reductions in government spending and a slower rate of inflation.

On Jan. 19, when most economists were predicting a flat to declining tre in the economy, we predicted that it would remain strong. Consume cutting back on spending, we pointed out, was only part of the sto Despite moribund auto and housing sales, we noted, spending on plant a equipment, defense and electronics would more than take up the slack.

Bankruptcies are double the number of a year ago

IN EARLY FEBRUARY WE PREDICTED SPECTACULAR corporate failures. Th dire prediction has not come to pass. Chrysler seems to have squeak through for now, and both Braniff and International Harvester made de with their bankers to avert the worst. Still, the bankruptcy figures a mounting. More than 150 businesses with liabilities of $100,000 or more a failing each week, almost double the number of a year ago.

In February we predicted trouble for Germany and the rest of Weste Europe; recently the press has been full of stories about the signs of stress the German economy. We said: "Lower European demand will force wor wide commodity prices down" in spite of the unexpected strength in t U.S. economy. Tin, for example, traded at $7.03 per pound on the sp market in April (*vs.* $7.76 in January), beef at 93 cents a pound (*vs.* $1.01)

Early in the year we also predicted that housing and oil prices "are large spent forces" as far as inflation is concerned. The average price of a house virtually unchanged from last summer. Recently Mexico shaved $2 from t price of its oil, and oil shares have been spectacularly weak this spring reports of a growing squeeze in retail prices caused by a glut in supplies.

With our predictions generally on target so far this year, we think worthwhile repeating our forecast for the rest of the year:

Continued extreme fluctuations in interest rates around a high figure.

Business remaining strong but kept within bounds by a Fed determined n to panic.

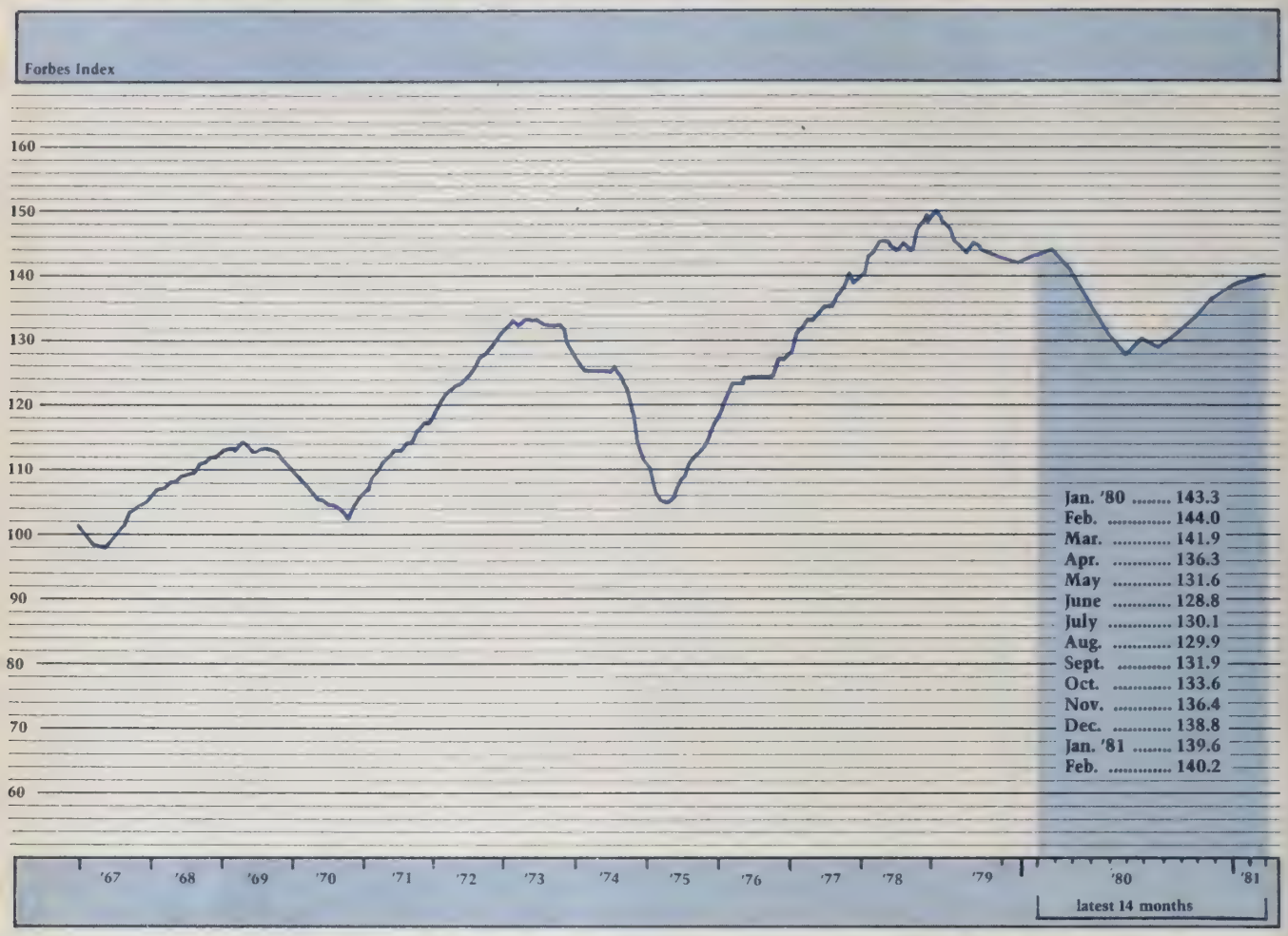
A gradual slide in inflation and in interest rates.

The stock market is stuck, buoyed by value and pressed by high interest rates

THE STOCK MARKET IS LIKELY TO REMAIN STUCK in a narrow range, buoyed the obvious value behind most common stocks but pressed down by t competition from high interest rates.

By year-end we see the inflation rate down to 8% and long-term intere rates at 10%. There will be a lot of seesawing in between, but the mood the country and the forces at work within the economy suggest that bo inflation and interest rates have reached their cyclical peaks and are headi down. But slowly, painfully slowly.

The Forbes Index



The Forbes Index Components

Heading for a peak. The Forbes Index is still rising—but at the slowest rate since it turned up last August. Most of the current oomph comes from manufacturers' new orders and inventories, both of which are still increasing at a brisk clip. Unemployment claims, however, also have a good-news flavor. They are now falling, after a big jump early in the year.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

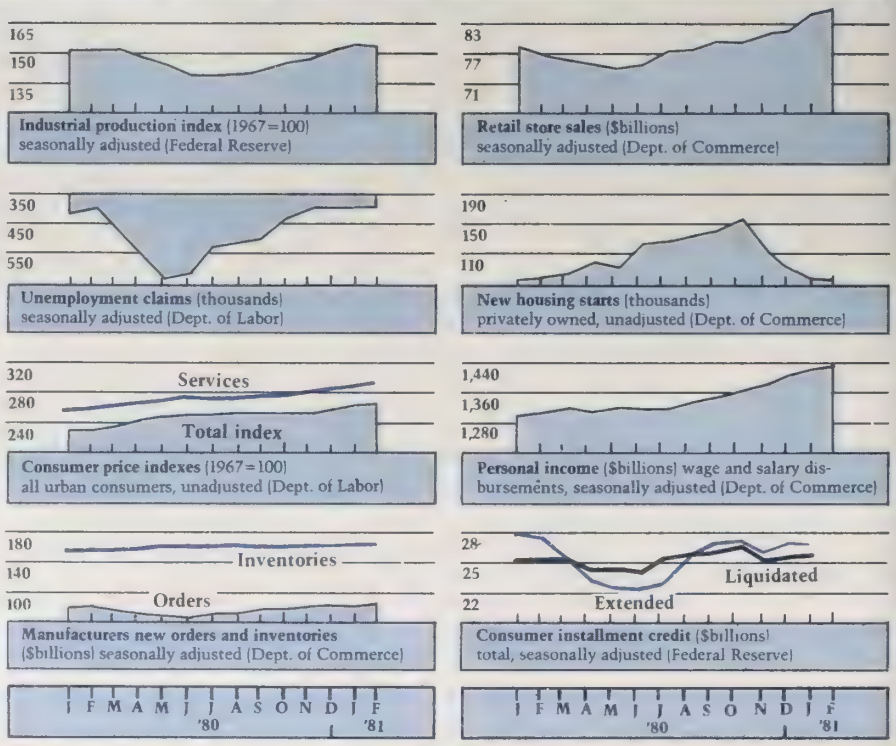
Total retail sales

New housing starts

Personal income

The change in the amount of consumer installment debt outstanding

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



Audi 4000 4E $9,210.00 suggested retail price, P.O.E. Transportation, local taxes and dealer delivery charges additional. Photograph—Ramsau, Bavaria.

Surprising as it is, the cars most prepared for the realities of the modern world are those built in the old world. Here in Ingolstadt, Germany.

In this ancient city by the Danube, Audi engineers build automobiles with the foresight of their forebears.

To wit, an Audi is as ready for the rigors of Interstate 80 as it is for the medieval roads of Charlemagne.

The 4000 4E can cruise at 55. Or 100. It is the epitome of efficiency and economy. EPA estimated 26 mpg, 41 mpg est. highway. (Use the "estimated mpg" for comparison. Mpg varies with speed, trip length, weather. Actual highway mpg will probably be less.)

It has a fuel-injected engine, front-wheel drive pioneered by Audi a half century ago, a refined five-speed transmission, advanced suspension and outstanding ergonomics.

Indeed, the 4000 4E is an exhilarating sports sedan.

For your nearest Porsche Audi dealer, please telephone (800) 447-4700. In Illinois, (800) 322-4400.

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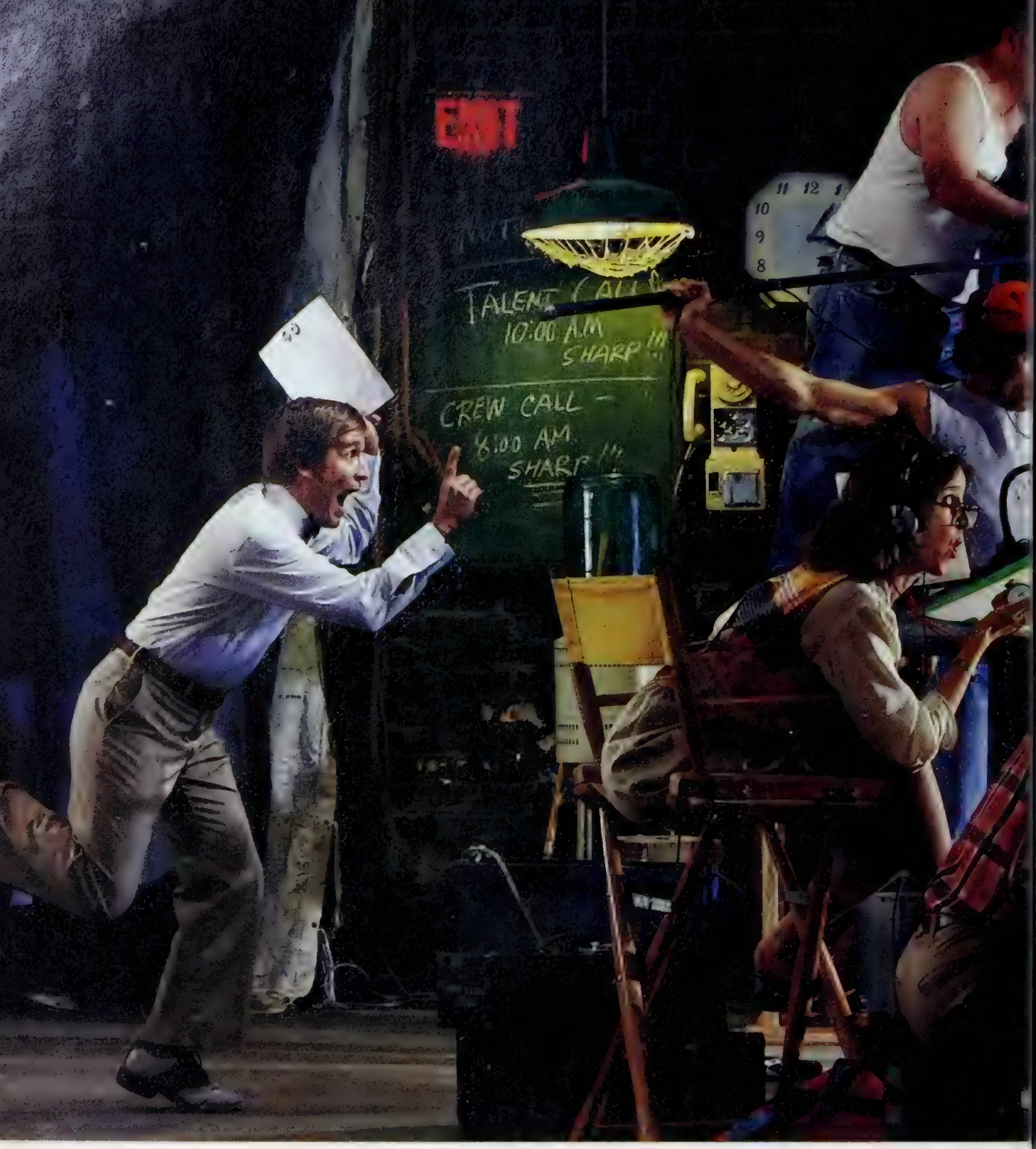

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Deliveries begin this month

While others are still designing and developing, the large cabin Learjet 55 is here. Deliveries begin this month. Mackie Mott, our vice president - domestic marketing, or Phil Lovett, senior vice president - marketing, will be glad to provide specifics. They both can be reached at (602) 294-4422.

Gates Learjet Corporation. P.O. Box 11186, Tucson, Arizona, 85734, USA. Telex: 666-408

Large cabin, standup aisle comfort is a reality in the new Learjet 55. Special features include standup aft lavatory and exterior baggage loading capability.

Gates Learjet

Prepared for a dynamic decade.

oney and politics make the strangest friends. you're at a restaurant in Bucharest, don't surprised if there's a sheikh at the next table.

The new odd couple

By Thomas O'Donnell with Anne Bagamery

ANY BANKER WORTH his three-piece suit knows that there is opportunity in every crisis. And the cur- t problems in Poland are no excep- n: They offer OPEC the chance to in playing a role in international fi- ice that could someday rival its world- le dominance in energy.

uch clout could come if OPEC's cash- n banks bail out supposedly more so- sticated and experienced Western ders that are awash with suddenly ky looking loans to Eastern Europe. e seven Communist countries already e $80 billion to Western banks, and y will soon need billions more. "With money that is necessary, OPEC will e to step in," predicts a Citibanker se to the scene.

he is right, the implications for the rld economy are enormous. Until re- tly, OPEC has avoided playing poli- with its fantastic wealth. Fully 50% ts $150 billion surplus sits in super- e, short-term bank certificates of de- it. Despite arm-twisting by the Inter- ional Monetary Fund, oil producers e long balked at lending to energy- rt less-developed countries.

o why should OPEC now channel ds to Eastern Europe? "The Mideast ions may be filled with sheepherders tent dwellers, but the leaders are hly sophisticated," says Richard ng, president of Young Research & lishing, a Newport, R.I.-based mone- research firm. "Many have Harvard M.B.A.s. They believe they have a good chance of being paid back by the Europeans. They also believe that lending to the LDCs is like throwing money down a rathole."

Beyond that, OPEC is taking in so much money—its surplus is expected to top $1 trillion by 1985—that it mus diversify. The Eastern European nation of Comecon (the Soviet-dominate Council for Mutual Economic Aid) a perhaps the best of a bad lot of hat-i hand borrowers. Already, Libya, Kuwa and Algeria have placed several hundre million on deposit with Comecon bank Lenders in the Gulf are also arrangin medium-term credits such as January $200 million, eight-year loan that Ara Bank and the National Bank of Kuwa helped syndicate for Romania.

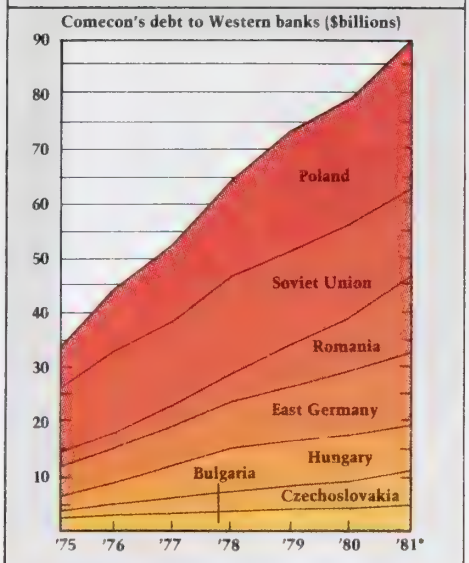
Except for Poland, OPEC believes tha the Eastern bloc is still a comparativel good business risk. The OECD agrees an as evidence, cites Comecon's trade def cit, which went from $7.1 billion in 197 to a surplus of $2 billion in 1979. With th exception of Poland, in fact, the pric Comecon countries have had to pay f money has actually decreased in recen years as maturities have lengthened. Pr miums above the London interbank-o fered rate, for example, which hovere around 1% in 1977 on medium-ter loans, have fallen to 5/8% or even 1/2%. A the same time, the term of a typical loa has jumped from six to ten years.

Still, OPEC's major reason for cozyin up to Comecon may not be economi "OPEC now wants to use its lending a an instrument of statemanship," ex plains Donald Green, a Chase Manha tan Bank vice president. Surprisingl that might help the West. Any direc links between OPEC and oil importe reduces the burden of recycling petrodo lars. Beyond that, if OPEC's money me become involved with borrowers in Bu charest, Prague or Sofia, they are *de fact* front-line participants in the interna tional banking system. That is some thing oil producers have studiousl avoided and Western democracies hav long hoped to see.

There may be another plus in this bud ding alliance. Now much of the Soviet clout both with the West and with it Comecon allies comes from its positio as bailer-out of last resort—the so-calle "umbrella theory" that the U.S.S.R. wil back up the bloc's debts. With OPEC o the scene, however, the equation be comes more complicated, and Soviet in fluence is probably eroded. The Arab and the Eastern Europeans may appea the oddest of odd couples on the politica landscape of the Eighties. But, for th moment, the closer they get the happie U.S. bankers and diplomats will be. ■

Leaky umbrella?

Eastern bloc debt to Western banks has tripled since 1975, largely because of the "umbrella" theory that the U.S.S.R. will back up those debts. The theory is untested, but the bloc (except Poland) may still be a reasonable risk.



* Estimates
Source: Bankers Trust Co.

Entrepreneurs and investors, promoters and fakers are playing Vancouver these days—the world's hottest stock market.

Not for faint hearts or slow wits

By Phyllis Berman

A CROWD OF 210 TRADERS fill a windowless room in an aging, four-story building on a side street off the Vancouver waterfront. In the din of voices, a shout breaks clear: "Bid 13½ on the United Westland." A chalk boy runs to the board that lines one wall and writes the bid under the company's symbol along with the number of the offering member firm. Immediately, a broker for a seller at 13½ dashes to the bidder and the trade is made.

Primitive it may be, but the site of that transaction is currently the most active stock market in Canada, the Vancouver Stock Exchange. Last year 1.72 billion shares traded on the VSE, a total value of $4.4 billion (Canadian), and the tiny bumptious marketplace accounted for 11% of Canada's stock trading, up from 6.4% in 1979.

More than 1,200 companies are listed on the VSE these days, almost all of them related to mining or oil and gas exploration and production and many of them engaged in oil and gas drilling in the U.S. Oilmen in Houston and Denver and points beyond trek to Vancouver to float new public companies on the bustling exchange. Houston oil analyst John Olson of Rotan Mosle calls the VSE the "biggest and best venture capital market in the world" and says, only half in jest, that "half the oil operators in Houston are planning to take a company public there this year."

The VSE estimates that only half its volume comes from Canadians, many seeking investments in U.S. oil and gas now that Prime Minister Trudeau's government has soured the action at home (FORBES, *Apr. 13*). Another one-third comes from the U.S. and the remaining 15% from overseas—the U.K., Switzerland, West Germany. Suddenly, it seems, the 74-year-old VSE, once a typical Canadian penny-mining stock market, has become the hot stock mecca to the world.

The average price of a share has risen to $2.80 from $1.02 three years ago and the VSE hosts such major brokerage firms as U.S. biggies Merrill Lynch, Bache and Paine Webber. Member firms now number 47 and the price of a seat has risen to $65,000 from $5,000 since mid-1979. It's a market where issues can go public and simply take off.

In some quarters the VSE is viewed with disdain, if not alarm, as a playgro for hotshot promoters pushing quest able merchandise. In reply, suppor and governors point to the British Col bian Superintendent of Brokers, In ance and Real Estate—the provin equivalent of the Securities & Excha Commission—and new managemen the VSE, which jointly cracked dow 1977 on such scams as promoters qui dumping shares of newly public con nies or selling junk mining or oil p pects into public entities they had rec ly formed. Along with computers to m itor trading, and an elegant headquarters to which the VSE move June, the VSE has acquired a more ri ous administration, say its suppor VSE Chairman Robert Atkinson, also heads a Vancouver institutiona search firm, says that is why it has ga so much action. "We can't be doing billion a year if it's just a rogue's game that simple," says Atkinson.

How simple is it? Mike Caswel Houston oilman who has worked as erything from roughneck to petrol engineer, is taking his company, T Sevens Resources, public on the soon. He went to the VSE, he says, cause it offers lower cost and less manding regulation. He and his ex tive vice president, Dick Bowes, a time bond salesman at Salo Brothers, first approached investm bankers in Dallas and Denver. In Da says Bowes, "the answer was one, don't earn enough and two, it will $200,000 to $300,000 and one year t public. In Denver they wanted us to 40 million shares at ten cents eac that they could trade the crap ou them and make a bunch of money."

Four months and $28,000 later, T Sevens will soon be a public compan the VSE, if all goes according to sched Caswell, who flashes 14-karat gold, rig-shaped cuff links, first issued shar at 30 cents to $1.25 apiece—to some backers like Graham Dawson, head big Canadian construction firm and rector of the Bank of Montreal. Wher company eventually goes public at $ per share Caswell and some backers get an immediate eightfold return. B ers who put up cash for shares before public offering may sell 25% as soo the company goes public, then 25% each three-month period therea Those who exchanged property for sh may sell 15% of them twice a year the public offering.

A prospectus, naturally, accompa the sale of stock—the $2.50 per s sale—to the public. The Superintende Brokers must approve the prospectus it relies on a report by a petroleum ge gist. That report, plus a cover letter sta the geologist's qualifications, makes large part of any VSE prospectus. I good is the word of a geologist who is

Chalkboard and room of the Vancouver Stock Exchange
Money raised on a lick, a promise and a geologist's letter.

y the issuing company for his services? nswers Robert Fay, a governor of the VSE nd a Vancouver investment banker: Look, we can't police these geologists. hey are policed by their professional as- ciations. Maybe they can get away with ne, maybe two, bad reports. But after at, they would be found out. And their ports wouldn't be accepted again."

Both the VSE and the Superintendent of okers must be satisfied that the issuer as some capital. To get on the VSE curb or junior companies), you must have at ast 150 shareholders of record (exclusive insiders), at least $15,000 in working pital above that required for current ans, must have sold 250,000 shares and nanagement must satisfy the Exchange at it has expertise in its prime area of deavor." The full listing calls for 200 areholders, excess working capital of t less than $50,000 (although if you're the curb for awhile and have traded in orderly manner, this requirement can waived) and a mining or oil property at "can be shown to have some poten- l merit." "Expertise" and "potential erit," of course, are terms that defy pre- se definition.

The truth is, oil and gas or mining is ways high-risk, especially when pros- ctors are raising money with little more an a lick and a promise. Sophisticated vestors know how to take the good with e bad, and the VSE offers both.

An example of the one is Dov Amir, e Israeli-born petroleum engineer esident of United Westland, who rned to the VSE three years ago with a oribund company that owned a few significant producing wells in Califor- a. He sold 200,000 shares at 40 cents ch to recapitalize, and today United estland has interests in 30 U.S. wells, a cent $13.50 share price, a NASDAQ otation and its eye on an American ock Exchange listing.

But another example is Donald John- n, formerly a Vancouver broker, who ok Sea Gold Oil Corp. public in October. e made a deal with two mining geolo- ts I knew to put their little possible gold ne into the company in exchange for a block of escrow stock," says Johnston. ut when my friends in Vancouver, ere I'd been a broker for 25 years, heard were going on the VSE, they all wanted iece. So I issued 700,000 shares at a ne, and then issued 400,000 shares to public at $1. Some of the really big nes around here got those insider ares." The underwriters, Continental, rlisle, Douglas and Peter Brown's Can- m Investment Corp., split a 20% com- ssion on each $1 share—3 times U.S. nmission rates. Brown's firm is said to e earned more last year than any other nadian investment house.

Need we go on? If you have faint heart low wits, steer clear of the Vancouver change. It's that simple. ■

All of Teleprompter's stockholders are equal, only some are more equal than others.

Waiting for the dough

By Allan Sloan

IT WAS A STRANGE SIGHT. After the close of what was billed as Teleprompter Corp.'s final stockholders' meeting, some holders descended like locusts on trays of leftover miniature Danish pastry, wrapping dozens of the delicacies for home consumption.

That hungry behavior was kind of symbolic, however, when you realize how long these people had been waiting to see any dough from Teleprompter.

Teleprompter's Cooke

It has been six months now since Westinghouse announced its bold, billion-dollar bid for Teleprompter (FORBES, *Nov. 10, 1980*), but most shareholders are still waiting for their $38 a share.

Teleprompter says they'll get their money in June or July, if things go well. If things go badly, it could take longer.

But Teleprompter's big insider shareholders don't have to worry, because they got paid in January. The buyer, eager to avoid a bidding war for control of the nation's second-largest cable television company, bought the insiders' 27.9% stake (plus 1.8% more in the open market) to forestall rival offers. That made sense from Westinghouse's point of view. But before it antes up for the remaining 70%, Westinghouse understandably wants to have all its acquisition paperwork in order, including FCC approvals.

But money has time value. The market is saying that the time value is worth $4 a share in this case. If ordinary shareholders wish to sell their shares they would have to settle for a recent price of $34 a share—an 11% discount from what some insiders have already pocketed.

On top of getting paid earlier, some Teleprompter insiders got pretty good deals for themselves.

Take Allen & Co. Inc. Whi one affiliate of the New Yor brokerage house and membe of the Allen family sol 170,000 Teleprompter share to Westinghouse, Allen & C Inc. was getting $800,000 fro Teleprompter for a "fairnes letter" saying that $38 a sha was reasonable. Some Wa Streeters consider that fee u usually high for the servic rendered.

Or take Jack Kent Cook Teleprompter's biggest shar holder and the man who g Westinghouse to offer to bu the company. On top of being paid f 1.88 million shares, Cooke got a 13-ye "consulting" contract totaling $4.65 mi lion. Should Cooke, 68, not make it to th age of 81, Westinghouse will pay the fe to one of his personal companies.

"We said, 'The service you're provi ing is worth X dollars,' and he chose to b paid that way," said Dan Ritchie, head Westinghouse Broadcasting. Anyway, h says, "to Jack Kent Cooke, what's a other $100,000, give or take?"

Cooke and the Wrather Corp., Tel prompter's second-largest shareholde were paid in a better way than cas Most of their money is in Westinghou notes (13% annual interest, all of it pr paid) due Jan. 2, 1982, but callable earli at Cooke's or Wrather's option.

If capital gains taxes are lowered ne year, Cooke and Wrather can book the profit in 1982, while having been pa nicely for waiting. That's an opportuni other Teleprompter shareholders migh have found appealing. There's nothi illegal about giving control-block stoc holders a better deal than ordinary stoc holders. That's life.

Cooke declines to discuss any of th because of a stockholder suit filed again him shortly after Teleprompter maile

proxy material for the meeting. The suit seeks $50 a share, $200 million more than Westinghouse is paying. As it is, the deal will cost Westinghouse $650 million for Teleprompter stock, plus $210 million in assumed debt and over $150 million to upgrade some of Teleprompter's aging cable systems. That adds up to a nice $1 billion. Westinghouse feels it got a bargain. It will take a good while to find out.

The sale was approved after a raucous meeting at which a few Teleprompter shareholders berated Cooke for selling out cheap. That's foolishness, of course. If someone had been willing to pay more than Westinghouse, Cooke had the most to gain. The $4.65 million in "consulting" fees over 13 years isn't wo more than an extra $2 on 1.88 milli shares of stock.

Cooke, who chain-smoked his w through the stockholders' meeti didn't hit the Danish table after the deal ended. With $80 million of We inghouse's money in his pocket, didn't need any more dough. ■

Retailers can't keep Rubik's Cube in stock. But Ideal Toy, the company that makes this best-selling puzzle, is posting record losses.

Figure this one out

By Jane Carmichael

RUBIK'S CUBE is possibly the hottest new toy since the Hula Hoop, and you would think the company that sells it would be rolling in money. Last year crazed addicts the world over bought 4.5 million of the diabolical geometric puzzles. In the U.S., toy departments sell out hours after shipments arrive. In Japan, people line up the night before deliveries are due, like rock music fans for Rolling Stones tickets.

Then figure this one out: Ideal Toy Corp., maker and marketer of the famous cube, *lost* an estimated $19 million on revenues of $135 million in the fiscal year that ended in January. That's roughly as much as the New York-based company earned in the entire decade of the Seventies, and the red ink comes despite an estimated $3 million pretax profit from Rubik's Cube in the U.S. alone. Never mind foreign sales and licensing fees. Instead of reveling in their success, Ideal's executives see the company's stock selling well below book value and plot takeover defenses.

What happened? For starters, economic uncertainty and high interest rates hurt the entire toy industry, where liberal credit arrangements are standard. It's not unusual for a manufacturer to carry customers from the Toy Fair in February, when orders begin to be placed, until the fourth quarter, when Christmas shipments are delivered. But Ideal compounded its problems. It poured millions into a number of new, high-priced electronic games and dolls it was counting on as flagships for its 1980 season.

But retailers worried that customers would cut spending on toys. Result: Not only did buyers fail to order Ideal's expensive items, they lost enthusiasm for the rest of the line. Not even Rubik's Cube could save the day. In the toy business you can't rely on one winning product—not even a runaway success.

Ideal's executive vice president, Joseph Winkler, concedes the point. "Rubik's Cube is by no means the keystone to our recovery," he says. "It will probably represent less than 10% of our volume in the U.S. this year, maybe a little more overseas." Winkler claims Ideal has learned its lesson and is sticking to lower-priced merchandise this year. In 1980 the most expensive item in his line wholesaled for $39.95. This year it's $20, and so far, he claims, orders are strong. They had better be: As of Oct. 30, 1980, the latest figures available, Ideal had some $56 million in short-term liabilities, nearly double its working capital.

For the moment, retailers seem to like Ideal's new Sky-Writer, an electronic wand that spells out words in the air when waved. Missing Link, another geometrical puzzle, will sell to the Rubi Cube crowd. And Ideal is reintroduc some of its former successes. Te America, for example, resembles Ide popular Evel Knievel toy, which flop three years ago after Knievel plea guilty to assaulting a TV executi "They've brought back all their old t and dolls, which, if you're in trouble not a stupid thing to do," says Thon Kully of Chicago's William Blair & C

That may be a desperation attempt solve Ideal's fundamental problem: It l always been a mood-of-the-mom company, introducing new, heavily vertised toys every year. Rubik's Cu which was invented by a Hungarian chitecture professor to help his stude visualize in three dimensions, is an ample of how such a strategy can pay But without a line of such old reliables Mattel's Barbie dolls or Parker Broth board games, Ideal has little to fall b on in rough times. Retailers today cautious about taking on unproved m chandise, and Ideal can't afford the ri of its former ways.

"You need a certain amount of sta product to balance promotional produ because you won't hit a Rubik's Cu every year," says one major retailer. Ir ically, there are even problems with persellers. Says Ian McDermott, sen buyer for the exclusive F.A.O. Schw chain, "Every retailer in the country hopping mad because we cannot get F bik's Cube." Richard Weintraub, Ide vice president-operations, says capac is only now reaching the point where can fill orders quickly. Meanwhile, has been keeping customers happy w air shipments, eroding margins.

On top of that, Ideal cut the cub wholesale price from $6.19 to $3.99 j after Christmas. Its goal is to discour retailers from stocking the dozen or cheaper knockoffs now flooding the m ket. One toy buyer, for example, claim South Korean cube is much better ma Ideal says the price cut reflects the ec omy of producing the cubes in the Car bean and the Far East instead of only Hungary. Still, critics question the w dom of discounting any hot item.

Rubik's Cube might be buying time Ideal. If nothing else, it helps the fir salesmen get a foot in the door. But mand for the cube should peak this ye If Ideal's 1981 line isn't a success, company's future is indeed a puzzle. ■

weden's humanistic dream has become an conomic nightmare, but the Swedes seem nable to change. There's a moral here.

How Sweden's middle road becomes a dead end

eden's Reagan, 70-year-old Gösta Bohman, economics minister and Conservative leader ***wedes work. They work on their cottages, they work on their boats."***

By Jerry Flint

THIS IS THE STORY of a little nation that wanted *everything*. Material wealth, good food, fine homes, omobiles, boats, country cottages l long vacations. The people stayed of wars, worked hard and earned all se things. But these people wanted urity, too, and equality, and medical e for the sick, pay for the jobless, ty pensions for the old folks. They nted to be understanding about chil- n, about crime, about sex, about rk. They didn't want to make anyone do anything he didn't want to do.

But this story of a little nation that wanted to build a truly humane and egalitarian society is also a story about the perils of the welfare state and the dangers of trying to legislate human happiness. Sweden is the welfare society carried to its logical conclusion. Put bluntly, that society seems to be nearing a dead end.

Sweden's national budget deficit was less than $1 billion in 1976; this year it will be $12 billion and next year $15 billion. Since Sweden's population of 8.4 million is only one-twenty-seventh the U.S. population, a comparable budget deficit here would run $200 billion, adjusted for different budget methods.

This in spite of a crushing tax burden. Value-added taxes, a kind of hidden sales levy, add about 23.5% to everything. Swedish income tax rates hit 50% at $13,300 and 80% at $28,000.

The state, in short, takes most of what people earn and returns to them what it thinks they are entitled to. During the past decade, while the gross domestic product increased 2% a year, public spending was increasing 6% to 7%. Today there are more government employees in Sweden than industrial workers. All told, the various government bodies take 65% of the gross national product, *vs.* 33% in the U.S.

Under the circumstances, it isn't surprising that many Swedes have adopted a relaxed attitude toward work. Why not, when not working pays almost as well as working and when working very hard brings scant rewards? Not surprisingly, this hurts productivity. Quips one Swedish executive: "20% absenteeism is something we can plan for, but we don't know what would happen if everyone showed up one day. Chaos!"

Is there a David Stockman in the house? So far, no. Sweden is living beyond its means in a manner that makes the U.S. look positively frugal.

It should surprise nobody that Swedish goods are high priced in world markets while the local economy continues to gulp imported goods at a horrendous rate. The result is a yawning trade deficit. "Last year we borrowed abroad more than $5 billion, and $5 billion more this year," says Kurt Eklöf, vice president of the National Bank of Sweden, the country's federal reserve. "What bothers me," says Rudolf Jalakas, economist of the Svenska Handelsbanken, "is that we borrow for *eating*."

The day of reckoning looked very distant, pre-OPEC. But, whereas in the mid-Seventies, Sweden's oil import bill ran about $2.6 billion a year, it will hit $7 billion this year—nearly $1,000 for each Swedish man, woman and child. Still, a hefty minority blocked expansion of nuclear energy for years and the issue was settled only after a plebiscite. The compromise: run 12 nuclear plants, but only for 25 years. After that, who knows?

But oil was only one of the reasons—and not the major one—that many Swedes feel shaken. Says P.C. Jersild, one of Sweden's best-known authors. "We have a feeling of security in this country. Suddenly we have to adjust to a new situation, that we are not living in a kind of paradise."

But the Swedes still strive for paradise, no matter how futile the quest or how high the cost. Listen to Marquis Childs describe youth "prisons" in his

most recent book, *Sweden: The Middle Way on Trial*:

> Run by the National Board of Health and Welfare, a staff of more than 1,000 cares for 475 young people between the ages of fifteen and eighteen. This means $100 to $120 a day per "pupil," as they are known, or $36,000 to $43,000 a year. Five of the institutions are coed, and the young are free to pair off as they please, with the girls given the pill or other forms of contraception. If at times there are errors, the answer is abortion. Some of the 18 institutions have locked units where life is more restricted, but no youth may be kept in such a unit for more than two months. Does this permissive treatment result in rehabilitation for the offenders? National Board specialists are frank to say no.

Listen to Gösta Bohman, economics minister and feisty leader of the Conservative bloc in the ruling coalition. He has to pay for budget-busting items like public day-care centers. "The net cost for each child is 40,000 Swedish crowns [$8,900 a year]." For a fraction of that, you can hire baby sitters, he complains.

Many Swedes still live in a never-never land where the state can do everything and where every idealistic whim can be realized. The powerful antinuclear movement seems utterly out of place in a nation completely dependent on foreign oil imports. Lars Nabseth, president of the Federation of Swedish Industries, sees a bitter humor in the situation. "We have politicians that say we can have a mining industry—but not uranium. We can have iron ore, but of course we can't sell it. We need industry, but not aluminum; and if we sell weapons that kill people we must sell them to those who don't use weapons—and that's a very limited market. I could go on like this," he laments.

"I think we have seen the best years already, the Sixties, the Seventies, they were the golden years of steady economic growth. It was very easy to be a politician then," says Ola Ullsten, leader of Sweden's Liberal Party, part of the ruling coalition and onetime prime minister. "You only had to elaborate on how to distribute the wealth. Now you have to do something much more difficult: distribute the burdens."

How do you do that in a town like Kiruna, 450 miles north of Stockholm? The welfare state has made life pleasant in Kiruna, where once it was harsh. Kiruna is a one-industry town, and the work is burrowing underground to get at three square miles of iron ore inside the mountain. Kiruna is 87 miles north of the Arctic Circle, which means it's dark day and night in the winter, and there's a midnight sun in the summer. "There's a two-hole golf course, but you can play 24 hours a day—when it's not covered with snow," guffaws Ture Asplund, an executive of LKAB, the big government-owned mining company. "You get used to it," everyone says in Kiruna, but what's harder to get used to is the collapse of the iron ore business.

Competition from open pit mines in Brazil and Australia is killing Kiruna, where a miner earns $1,600 a month and the company pays another 40% of that in social welfare taxes. Then there is the now-disdained phosphorous content of Kiruna's ore. Last year LKAB lost $67 million; this year it's expected to lose another $167 million. The work force of 7,000 has been cut by 1,400 through attrition; another 1,000 should go, say mine officials who haven't had the courage to do it in a state where unemployment is frowned upon. A costly new palletizing plant to be finished this summer may start up and then close down if business doesn't get better. Worse, if the company is to be in business in 1990 it will need new tunnels 3,500 feet beneath the mountain top. That's a $300 million job, but can Sweden afford to keep spending on such money-losing industries?

Unemployment in Kiruna is 12% to 16% (in all Sweden, unemployment runs about 2%, or 6% if you count those put on public works and retraining programs). "It's mostly young people and women out of work," says Lars Essling, chairman of the municipal council, "1,500 out of 25,000 in the city. It's very difficult for us, for families. The youngsters must go south to find jobs."

Sounds terrible, doesn't it? An old mining town in West Virginia with snow and dark, long lines at the dole window, sad-eyed people and tumbledown shacks. Wrong, because this is Sweden, the ultimate welfare state.

Kiruna is as pretty a town as you'll see, handsome ten-story apartment buildings spotted among the single-family homes, rows of stores with up-to-date fashions, even there, north of the Arctic Circle, spick-and-span streets and new shiny cars. And at the Hotel Ferrum on a Tuesday night—Tuesday, not Saturday—hundreds of handsome well-dressed youngsters jam the large restaurant and dance floor, drinking whiskey at $7 to $8 a shot (alcohol is heavily taxed but that doesn't discourage drinking). A couple dozen youngsters are always outside the hotel doors, waiting in below-zero weather for someone to leave so they can get in. They party five nights a week in the Ferrum.

How can you take any of these goodies away? Kiruna, like all of Sweden, is living high on borrowed money. At the mine, absenteeism still runs 20%. Large numbers of Finns (even a Swedish citizen of Finnish descent is sti Finn in homogeneous Sweden) worl the mines, and in Kiruna they still that old joke: "You can tell the Fi from the Swedes. The Finns are w ing." Pensions, retraining money mine subsidies keep Kiruna prosper Says one Kiruna man: "I have a ne bor. He's 60 years old and retired c pension, 90% of pay. He owns a ho a vacation cottage, a Volvo three y old, two snowmobiles—that's $7,0 and his son is 30 and still in sc [free, paid for by the state]—and

complains about the taxes."

For generations, liberal idea dreamed of a society like Swed where want would be abolished and would be as secure as humans c make it. In return, the common would work hard, inspired by knowledge that the fruits of his l were his; he would take care of so because society would take care of Only it doesn't work that way. C comfortable and secure, people see to relax. Things began to go wrong. example:

- Productivity. In 1973 Sweden's

trial productivity matched the other stern industrialized nations', but ce then has steadily fallen behind: a % gain in seven years for the industri- ed countries, against 18% in Sweden. uses Economics Minister Bohman, called the Ronald Reagan of Sweden: vedes do not lose their capacity to k. They work on their cottages, they k on their boats, but they don't work heir jobs."

Costs. The hardest blow was a % increase in industrial wages during 4-76, and the welfare taxes—40% of oll—go up with pay. "Other cost eases and weak improvement in uctivity in Swedish industry result- a deterioration of competitiveness losses of market shares for both gn and domestic markets," says a mon Brothers-First Boston prospec- for Sweden's foreign borrowing. The lt, with the growing oil bill, is mas- deficits in the balance on current unt. Per capita, Sweden's deficit year would be equivalent to a $135 on payments deficit for the U.S.

The collapse of key industries in late Seventies: the shipyards from the industry slump and from Far Eastern competition; the iron ore, steel mills and paper pulp. Just as the U.S. government moved to save Chrysler, the Swedish government moved to save its companies, only more so. "We didn't realize that in ships, steel, pulp, they were structural problems. We said let's sweat it out, and pumped 40 billion crowns [$9 billion] into them," says Bo Ekman, senior vice president of Volvo, Sweden's largest manufacturer (cars, trucks, earth-moving equipment). Admits Bohman: "We took over half our steel industry, we took over the shipyards."

There was political cowardice: The "bourgeois" coalition, as it is called, drove the Social Democrats from office in 1976, the first SD defeat in 44 years. But the victors, in power, were timorous. "This new government was almost allergic to unemployment," says Handelsbanken economist Jalakas. "The Social Democrats had warned the people that if you elect a non-Socialist government you will be punished by unemployment, so they [the new government] were weak on this."

One effect of the ill-fated rescue: Workers refused to leave failing industries. In 1979 Volvo tried to hire 90 extra men a week; it could lure only 40 a week from all of Sweden, losing business while the Gothenburg shipyards, a mile or two away, were overstocked with subsidized workers on moneylosing projects. Says Gunnar Eliasson, president of the Industrial Institute for Economic & Social Research, "You know, between 1935 and 1950 Swedish agricultural employment went from 650,000 to 225,000. That corresponds to a major shipyard closing every second month for 30 years. And guess what? Nobody cared. It was spread out, nothing in the media. *Now* if we close a factory with 500 employees, well, the media is very efficient and it makes these structural adjustments difficult."

That's a problem for the entire industrial world: By and large, TV and the press don't understand economics but they can count; up to a point. Thus unemployment figures become front-page news, likely as not out of context.

So much for the problems. What are the solutions? That's where the trouble

onstrating against nuclear plants in Stockholm. Sweden's energy problem: no oil, no gas, no coal
issue was settled by a plebiscite decision to run a dozen nuclear plants for 25 years. After that, who knows?

lies. The current government is to the right of the Social Democrats, but divided within itself. Bohman's Conservatives are growing in popularity and talk of rolling back some of the social welfare system, but their partner, like Ullsten of the Liberals, wants to slow welfare spending growth, not reduce it. The prime minister, Thorbjörn Fälldin, leader of the Center Party, is considered rock-like, which helps in Sweden. Trouble is, Fälldin's convictions do not match his integrity; economically and politically he's a compromiser, as befits a compromise candidate.

Not only is the moderate coalition divided, it has only a one-vote majority in Parliament, which makes dramatic action difficult. Take taxes: Marginal rates are so high that highly skilled workers and executives end up with little more take-home pay than the less talented. That's close to being the ultimate in egalitarianism, but given mankind's selfish nature, it penalizes productivity.

Nils Lundgren, chief economist at the PK Bank and a well-known Social Democrat, criticizes the system his party built: "If you have a higher education or work harder, you might not get much more. Or, if you can't find work, it won't make much difference." So, he says, most people want those high marginal tax rates cut. "It's not because we changed our minds that you shouldn't have that much equality. It's that we say the efficiency effects of it are too detrimental, so we'll trade off the other way a bit."

Lundgren draws on his personal experience. He's got a boat, and he repairs it himself, because to get the $1,000 to pay for repairs he'd have to earn $5,000; the man who did the work would keep only $200—"If he reported it."

"That's why we've got a big black market [underground economy]," says Conservative Bohman.

So what is the government waiting for? Why not a Kemp-Roth deal for Sweden? The present finance minister wants to cut marginal tax rates to 50% for up to 120,000 crowns ($26,700) and 70% to 75% for the highest brackets, instead of 85%.

But the leftist Social Democrats have different views. "The Conservatives have been saying for 20 years that we should have lower marginal tax rates—and now we say yes," says Palme, the SD leader. But he then complicates the issue by saying that the money lost should be made up by closing off tax deductions for the middle and upper classes. "You can't say, 'Now we have to tighten the belt, now we have to all stand together, now we have to fight for the nation's future, now we have to have austerity,' and then start by giving yourself a $20,000 tax cut." In short, the socialists in Sweden, like ultraliberals in the U.S., recognize that the tax system hurts incentives but are so committed to soaking the rich that they can't free themselves from the old ideological bounds. Like Teddy Kennedy, they see every concession to economic incentives as robbing the poor to help the rich.

Some Swedes—and Swede-watchers—still draw hope from the fact that both Right and Left now agree on the need for belt-tightening and for better profits. After the latest round of wage negotiations this year, both the unions and employers signed the following statement that said:

"Our standard of living rests on productive work and is not created by grants and subsidies paid for out of borrowing. The value of work must therefore be recognized, profit-earning capacity strengthened, and employment opportunities regenerated in industry and commerce." Nice words, but what about the contract? Remember, last year's labor-management war closed down the whole country.

Olof Palme, the opposition Socialist leader
"The Conservatives have been saying for 20 years that we should have lower marginal tax rates—and now we say yes."

The contract looked good on paper. Its first year carried an average increase of 3.6%, the second, 3.5% (this became the pattern for all Sweden). Climbing oil prices were knocked from the inflation escalator and blue-collar workers and employers wrote their pact so as to chip 3% of the gain from some of the white-collar unions that usually follow the pattern. The fine print, however, was something else again. Individual companies negotiate local pacts with additional pay, what Swedes call "wage drift." Add it all together, includi money for the inflation escalator, a 1981 pay will be up 9.5%, next y maybe 7.5%. Good, but not sensation

Worse, the apparent agreement tween Left and Right on economic cessities masks widely differing goa The Left wants what might be cal trade-union socialism—ultimate cont of the economy by unions, a modifi tion of the Yugoslavian model. Take so-called wage-earner funds proposed the Left as an answer to industry's vestment needs. A certain part of cor rate profits would be retained untaxed, return firms would issue common sha to semipublic or union-connected fun "We are telling the industrialists: 'You get your profits, but we are getting share of the influence on how to inv them,'" says Clas-Eric Odhner, ch economist of the LO, the trade uni federation.

To an American, it sounds li slow nationalization. "Yes, introduces some new own and ultimately they will have so power. If there's a problem after 25 30 years, we can change it," says cialist ex-premier Palme. Those re suring words don't help; Swedish bu nessmen have the willies about th Indeed, a Swedish psychologist, ask what put his patients on the cou replies, "Codetermination," whi means sharing decision making w the workers. Patients are frustra because they meet and debate w workers—but can't get the job do Swedish employers say they will fig the Social Democrats on the wa earner funds issue and believe might cause left wingers, now leadi polls, to lose in next year's electio

The employers don't object to s ting aside some of their profits in tax-free fund for buying stock, they propose that the shares be d tributed to individual employees stead of to organizations. There is profound fundamental philosphical d ference between the two proposals.

Thus behind the apparently pragm ic attitude of this Scandinavian peo lies a possibly irreconcilable split in i ology, almost a religious schism. W the voters in the end blame their tr bles on the socialists or on the capit ists? Will they accept less egalitari ism for a better-functioning econom Maybe not. "Envy," concedes auth Jersild, "is the Swedish disease."

In the end, the problems of Swedes are the problems of the ent industrial world. The advanced dem cratic nations have confounded K Marx by making the masses partners progress. But in Sweden as in the U the welfare state seems to have co to a dead end. What now for Swede What now for us all? ■

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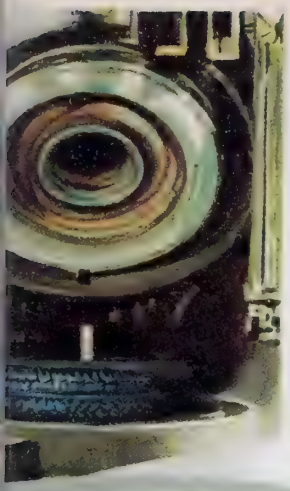

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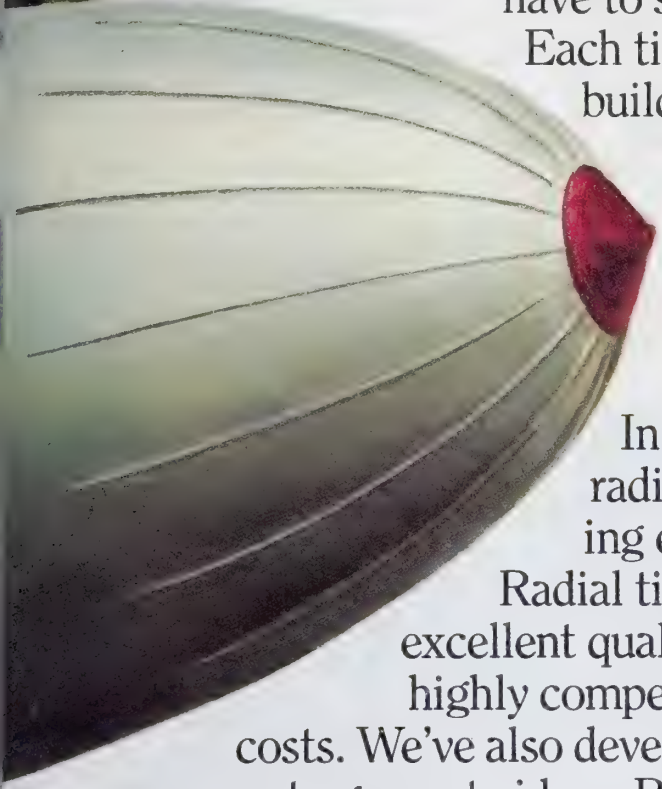
This new tire-curing press at Goodyear's plant in Lawton, Oklahoma, bonds tires together and toughens the tread. And you can't close it unless the steam temperature and pressure are just right. Goodyear radials and their components have hundreds of inspections behind them. So a lot of people have to say yes. But it only takes one to say no. Each tire carries two numbers, identifying the builder and the machine it was built on. So if it doesn't pass inspection, Goodyear can track down the trouble immediately.



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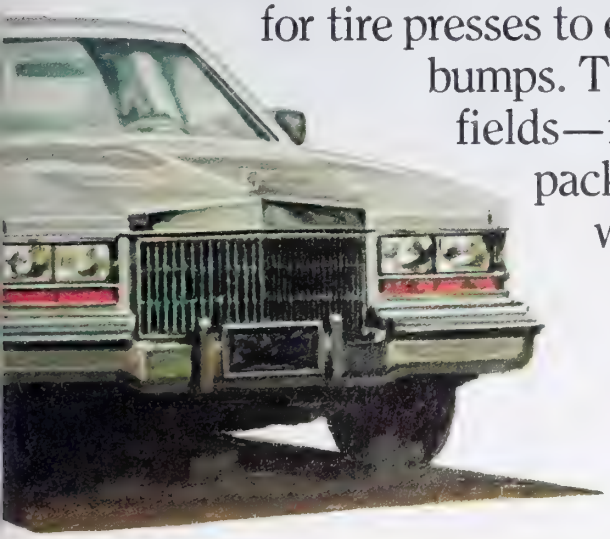

GOODYEAR

Out front. World wide.

When was the last time you heard from an enthusiastic utility executive? SoCal Ed's Bill Gould sees opportunity out there.

"The prettiest hog at the fair"

By John Merwin

CHAIRMAN WILLIAM R. GOULD of Southern California Edison is an uncommonly philosophic man. "I always thought there were a number of great ages in which a man could have lived," he says. "It would be nice to have been the legate of a Roman legion in southern France when the empire was at peace. Or perhaps a big industrialist in Victorian England. And in the Fifties and Sixties, it would have been wonderful to be a utility executive."

Gould's implication is clear: There are not-so-nice ages, too. For serfs, there were the Middle Ages; for Royalists, the English Civil War; and for utility executives, the Seventies. Plagued with angry bill-payers, regulators more interested in popularity than facts, costly envir mental regulations, wild inflation, sto selling below book value, spiraling int est rates and high energy costs, bein utility executive in such querulous tim is no fun.

But Gould, unlike so many utility e ecutives today, is not complaining, least not in public. A 61-year-old Univ sity of Utah-graduate engineer who ca to SoCal Ed 33 years ago fresh out of t Navy, Gould sees not decline and fall b challenge and growth. "I've read that t truly great opportunities come abo when we are either building toward new status quo, or tearing it down," says. "Today what had been status quo changing. There is opportunity. This an exciting business."

What does this mean to $3.7 billi SoCal Ed, supplier of electricity to 3 m lion customers in vast areas of Califor outside the municipally supplied City Los Angeles? Last fall, Gould announc that the company would take a radi new tack. Edison would attempt to d velop one-third of its new power needs this decade from alternate ener sources—from windmills, solar arra and fuel cells—and not from the tra tional oil-, gas- or coal-fired generati

Reflecting mirrors at Southern California Edison's Solar One facility in the Mojave Desert

While other utilities curse their fate, Edison tries to fill Eighties' power needs with wind, sun and geothermal steam.

ants that now supply 70% of the utili-
's 15,500-megawatt peak load capacity.
seems like a gamble, but to Gould it
oks more like a reasonable plan.

"Some people will not hesitate to tell
ou that I'm out of my mind," Gould
oncedes. "But I think more will tell you
at I'm credulous. Okay, but remember,
a species doesn't go through a muta-
on to meet its new environment, it
esn't survive. A corporation is in the
me situation."

As with all electric utilities, SoCal Ed
facing a new set of rules: Growth in
mand for electricity—that once dou-
ed like clockwork every ten years—is
longer certain. Where bigness in gen-
ating plants used to mean economy, it
w means expense. The whole techni-
l picture is changing, but humans react
owly to change, which is where
ould's deft sense of internal politicking
mes in.

Last fall Gould and Edison execu-
tives met for two days, charting
the new course. Then, one day be-
re the announcement, Gould sent a
tter to employees, assuring them that
e announced changes were more than
indow dressing. It would be necessary
change the way Edison did business,
ould wrote.

Gould also did some external politick-
g. He telephoned California's Gover-
r Jerry Brown, Public Utilities Chair-
an John Bryson and neighboring utility
ecutives to explain Edison's new direc-
n. "I didn't want them to read about it
st in the newspapers," Gould says. The
xt morning Edison held a big press
nference and announced its corporate
ange, enthusiastically stressing a
holehearted commitment to alternate
ergy. PUC Chairman Bryson publicly
aised Edison.

The strategy here is quite obvious:
nce change is inevitable, Edison might
well relax and enjoy it.

Edison's willingness to innovate goes
yond the development of alternative
ergy sources. Last December, instead
sending the *de rigueur* lawyers to
ake its summary argument for the bi-
nial rate case, Edison dispatched its
esident, Howard Allen. The day before,
other utility's lawyer had been eaten
ve by continual interruptions from
eptical commissioners. But a cool,
oroughly prepared Allen proceeded
thout interruption. Edison got 97% of
e requested rate increase.

Even Claire Dedrick, a self-styled envi-
nmentalist whose PUC term recently
pired, has praise for Edison's perfor-
ance: "Allen was really effective.
hen you're getting answers from the
esident of the company, you know the
mpany will back them. Edison also
d the good sense to come in and tell us
at was really bothering them. They
dn't go through the usual rhetoric."

With Edison's current problems, it needs all the imagination and political skill it can muster. If sites are available, the cheapest power around is hydroelectric or the more commonly used coal. But hydroelectricity is hard to come by, and southern California's air quality nightmare makes coal-fired generators unwelcome. That forces Edison to burn oil and gas to generate two-thirds of its power, which is very bad news.

Edison's financial straits reflect the difficult circumstances. Last year SoCal Ed, after paying preferred dividends, earned $256.6 million, or $3.50 a share, but the quality of those earnings was horrendous. Of that bottom line, 63% wasn't real cash, but a utility accounting illusion called "allowance for funds used during construction," or AFDC. AFDC represents imaginary earnings from power plants under construction, as if those partially completed plants were actually operating and earning a cash return. Real cash earnings at Edison last year were $94.5 million, or $1.29 a share. Thus, to pay the $2.78 common dividend, Edison had to use borrowed money. Perhaps the most startling figure is this: Only 12% of Edison's 1980 capital expenditures of $728 million stemmed from cash flow—the other 88% had to be raised through stock sales or debt.

Edison's low-quality earnings result, in part, from the California regulatory process, which like that of 18 other states, doesn't allow return on uncompleted facilities. In Edison's case, $2.6 billion—one-third of its total invested capital—are in such construction projects, with $2 billion locked in the San Onofre nuclear project. The California PUC has decided that shareholders, not ratepayers, should bear the burden and risk of construction.

But California's regulatory environment is far from impossible. The PUC grants rate increases for coming years, instead of years past, which is critical when fuel prices are rising rapidly. In addition, California has taken the lead nationally in encouraging utilities to avoid building new plants, or to use someone else's money to do so. That means buying power from other utilities when possible, avoiding the drawn-out financial strain of building new power plants. It also means offering other private enterprises a chance to build and operate windmill parks, for instance, and sell the power to Edison. So some of California's utility policies—widely viewed as being antibusiness—work out to be in the interests of shareholders and investors.

"Without question we were once polarized," Gould says of Edison and the PUC. "We aren't now. We've both learned something. They are recognizing the need for conventional planning, while we are seeing that the world isn't what it once was."

In specific numbers, SoCal Ed's planners foresee a need for 6,000 megawatts of new capacity in the Eighties, one-third of that to retire oil-burning generators. (A megawatt is 1 million watts, enough electricity to serve 500 persons for a year.) They intend to acquire two-thirds of those 6,000 megawatts from nuclear facilities, such as the almost-completed 2,200-megawatt San Onofre nuclear station, which the utility has been building for nine years, and by purchasing power from other utilities. And for the crucial 2,000-megawatt final third, the company is betting that small-to-medium-size plants generating electricity from relatively untried technologies will do the job. Edison already has turbine windmills generating power from winds whistling through a pass near Palm Springs, and is building a pilot solar facility in the Mojave Desert. The company is also generating geothermal power in the Imperial Valley.

By using load management—persuading customers to spread power usage evenly during the day—Edison will reduce peak demand by 1,000 megawatts by 1990, enough to serve a city of 500,000. Last year alone Edison's conservation programs saved 5 million barrels of fuel oil. Meanwhile the company is concentrating on obtaining power from sources where construction can be easily delayed if electricity demand flags unexpectedly. While at the moment no utility stock is raising the investor's pulse, SoCal Ed's future seems promising. "We may be the prettiest hog at the fair," says Glenn Bjorklund, vice president in charge of systems development at SoCal Ed.

Not long ago Gould called together his executive team to decide whether to drop out of a proposed jointly owned, coal-fired plant slated for the late Eighties. The coal-fired plant would be a convenient backstop if Edison's alternative-energy plans aren't successful. Says Gould: "I asked our executives, 'Do you believe the new direction that we announced last fall? If you do, we can let this project go.' They did," he says, "and we cut loose the lifeboat."

The payoff? Gould reckons earnings would be about the same from a number of small plants or one big one. But the quality of earnings will be much better without all that cashless prosperity called "allowance for funds used during construction."

Meanwhile, Edison's near-term prospects aren't all that bad. Analysts predict that earnings this year should rebound to about $4.90. With the recently increased dividend, the stock, at a recent 24, yields better than 12%. If Gould is half right in his optimism, the Eighties could be as good for Edison as the Seventies were bad. ■

Doing business successfully in Japan isn't impossible, though it's hard at first: Several U.S. companies have shown it can be done.

Beating the Japanese in Japan

By Stanley Ginsberg

THE CLOCK RADIO buzzes insistently just after sunrise and the executive stumbles out of bed. He showers quickly, then shears off the morning's stubble with his trusty Schick. His wife, meanwhile realizing that she's out of coffee, runs around to the local 7-Eleven for a jar of Maxim. Forty minutes later, the executive arrives at the modern semiconductor factory. At lunch, he forgoes the company cafeteria and joins several colleagues for hamburgers at a nearby Denny's.

Dallas, Tex.? How about Tokyo, Japan?

A 7-Eleven in Tokyo
Inventory, identity and three-quarters of the electric bill.

Contrary to popular U.S. opinion, t Japanese aren't the only ones profiti from U.S.-Japanese trade. There is strong and visible American busin presence in Japan. Indeed, for a small b growing number of U.S. companies, pan has proven itself to be a highly pr itable market—albeit one that demar more than the usual patience and co mitment. "There's no secret to comp ing successfully in Japan," says Andr Osterman, deputy executive director the Japan-U.S. Economic Relatic Group. "You only need to decide tl you're there for the long haul. Once t Japanese understand that you're comm ted to their way of doing things, t opportunities are there."

True, the failures abound: The fielc littered with the corpses of U.S. com nies that tried to penetrate the Japan market and wound up losing their shi In most cases they tried to buck t Japanese system rather than joining "Unlike the U.S.," observes UCLA P fessor William Ouchi, author of a rec book on Japanese productivity, "Ja nese society emphasizes integration a cooperation, rather than competition is a society that has learned that inter pendence is the key to its survival."

With 117 million people—more th half the population of the U.S crammed into an area the size of Mc tana, Japan has had to respond by evo ing a highly structured, delicately b anced system of personal relationshi The preservation of those relationsh is crucial to the preservation of the soc fabric. "It is no accident that there are least seven or eight different forms address in the Japanese language depe ing on the relative status of the peo talking," explains international law Jiro Murase, a native U.S. citizen w was educated in Japan. "An incorr usage—a distortion of the relationshi is a grave social insult. It is a transgr sion against the established order."

In business this means that there often other considerations in a relatic ship—between customer and suppli for instance—than simply price. "Wl is a 20% discount worth to a Japan manufacturer," asks a Washington-ba Japan expert, "when it might jeopard a source of supply on which he has pended for 30 years?"

According to Osterman, "Probably t easiest way to get into Japan is to prov them with things they don't have a can't get on their own." The most ob ous of those things are the essentia food and agricultural products to feed pan's high-density population, and en gy. Of last year's $20.8 billion in U exports to Japan, $5.6 billion were fo stuffs, $2.5 billion, forest products a $1.5 billion, coal and natural gas.

But there is also a less obvious—a equally crucial—gap in the Japanese

OLD MAID.

The number of women putting off marriage for an education or career has risen 70 percent in the last decade. Men aren't rushing up the aisle, either. Over 17 million people now live alone.

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source bank, and that is technology. This is true even in the highly sensitive semiconductor field. For some companies, knowhow and design were the keys that opened the Japanese door.

Here, then, are three U.S. companies that have successfully adapted themselves to Japanese rules.

Texas Instruments: technical leverage

In the mid-Sixties, Texas Instruments applied for permission to open a plant in Japan. The Japanese Ministry of International Trade & Industry, well aware of the impending U.S.-Japan battle for primacy in semiconductors, agreed as long as three stiff conditions were met: First, TI had to come in as a 50-50 joint venture with a Japanese company. Second, it had to make its patents available to Japanese manufacturers. Third, it had to consult with MITI on production targets for the first few years. TI agreed to all three and established a joint venture with Sony Corp.

While TI agreed to share its patents, it also took extreme pains to see that its Japanese partners did not have access to TI's proprietary knowhow. Says TI: "A patent is a matter of public record, and we routinely license them to other manufacturers. It's up to them to figure out how to use the information we provide."

After three years TI was able to buy out Sony's interest, thus becoming the first and only wholly owned foreign semiconductor manufacturer in Japan. "Our partners taught us how to do it," says James Hubbard, a TI vice president who ran the Japanese operation from 1974 to 1977. "We knew we had the technological and manufacturing lead. We needed to come up with high quality, quick response time and high sensitivity to customer needs.

"Most of our business now," Hubbard continues, "involves joint design and joint manufacturing. Except for being shut out of the national telecommunications monopoly, we have total access to their market."

Although it is far behind industry leaders NEC and Hitachi, TI Japan's estimated 1980 sales of around $120 million put it among the top ten suppliers to the $3 billion Japanese semiconductor market. "We had to learn how to run like a Japanese business," says Hubbard. "It's been a strain, but we have to compete in the Japanese environment."

Warner-Lambert: buying distribution

"Distribution is by far the biggest problem for consumer goods manufacturers who are interested in cracking the Japanese market," says Joseph Williams, president of Warner-Lambert, whose $65 million in Schick safety razor sales give it 70% of that profitable market. "Unless you buy into the system, you don't have a chance."

Buying into the system often means hooking up with a Japanese company that has the capability to reach Japan's estimated 300,000 retail outlets, two-thirds of which are tiny, mom-and-pop operations. For Schick, that meant a partnership with K. Hattori & Co., which markets the Seiko watches that are now a world leader in the medium price range.

Like most distributing companies, Hattori has several layers, something like the American jobber-distributor-wholesaler system. "The large number of small outlets and the importance of personal relationships between distributors and retailers make the system bloated by our standards," says Williams. "A lot more people want a piece of the action."

While this means generally higher prices for Warner-Lambert products, the Japanese gladly pay for the prestige of owning a high-status imported item. "They are extremely brand-conscious," explains Arthur Miyakawa, of the Department of Commerce's Japan desk. "If they believe that a foreign product is superior to locally manufactured ones—French perfumes and fashions, U.S. jeans and bourbon, for instance—they will happily pay a little bit more." He adds, smiling: "Sometimes, premium pricing is a definite plus."

Inside a Japanese Denny's
Specific expertise and market access.

"Japanese advertising is pervasive and sophisticated," says Williams. "It's every bit as good as ours." Last year, Schick spent approximately $5 million behind a splashy TV and print campaign. The company pays a lot of attention to packaging and product quality. "We have to aggressively project a premium image. Without it, we'd lose our market share in less than a year."

Getting the goods through the retail pipeline is another potential stumbling block. General Foods, for example, learned that lesson the hard way. years, GF tried to go it alone in put Maxwell House instant coffee on gro store shelves. For a while, it looked the company would be successful—u Nestlé came in with a Japanese par and knocked GF's share from 20% of market to a meager 8%. It was only GF established a partnership with Ajinomoto Co., a Japanese food prod manufacturer with a nationwide di bution network, that its fortunes tu around. Having decided on joint vent GF is now quite content to be simply manufacturer. Its local partner has ta most of the responsibility for marke and distribution.

"It takes a long time to break in," Warner-Lambert's Williams. "C you're there you've got as much oppo nity as the next guy."

Southland Corp.: a little of everythin

It was Southland Corp. that brou the convenience store to Japan in form of its 7-Eleven chain.

"It was an ideal situation for So land," says one old Japan hand. " mom-and-pop retailers are typic limited by a lack of capital. Wha Eleven Japan Co. offered them wa complete package—inventory, fin ing, low-cost loans to cover cap spending, three-quarters of their elec bills and an instantly recognizable ide ty. It was irresistible."

Even so, area licensing was still way to go. Through its partnership w Ito-Yokado Co., a major retail chain owns 62% of 7-Eleven Japan Co., chain has gone from 15 stores in 197 1,015 at present, while average sales store have risen from 48 million ye 145 million yen, and net earnings w from losses in 1975 and 1976 to year's estimated 2.4 billion yen.

Ito-Yokado also holds the license Denny's, the California-based restau chain with 135 restaurants current operation in Japan. "We chose the licensing route in Japan because we ne ed market access to go along with specific expertise in running family-s Western restaurants," says Barry Kra Denny's marketing vice president.

Denny's appears to be prosper However, Krantz acknowledges that no longer all gravy. "For the first years we were there, we saw unintern ed and substantial growth. All of a s den, there's competition." Not only h McDonald's and Kentucky Fried Ch en moved into the market, but a cou of Japanese-owned competitors have gun to make inroads. "Right now, on them has a stronger menu," Krantz c cedes, "and the other has us beat pricing."

In the Japanese market as in American market, success, o achieved, cannot be taken for granted.

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Avco is a carefully structured balance of business interests: aviation, aerospace, consumer finance, insurance and high technology for industry and defense. In each of its specially selected markets at home and abroad, it is a recognized leader. Softness in any one market is often compensated by strength in another. For Avco, this power of balance promises steady growth.

One good thing leads to another.

Avco continually seeks new industrial and defense applications for its evolving technologies. Technology which produced material to protect spacecraft returning from the moon is now being applied to the space shuttle and flame-retardant coatings that protect petroleum rigs in the North Sea. Lightweight, energy-saving materials are being used for components on America's advanced aircraft. Avco is helping to solve America's energy problem by applying its technical know-how to develop cleaner, more efficient ways of burning coal. It's contributing to national security by designing more sophisticated defense systems.

View from the half century mark.

These are the signposts of a corporation which entered its second half century in the strongest financial condition in its history. Annual revenues now exceed $2 billion and assets are close to $6 billion. Accomplishments such as these offer indisputable proof that Avco appreciates the power of balance. And knows how to use it.

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Miracle on 42nd Street?

izer President Gerald Laubach (left) *and Chairman Edmund Pratt Jr.*
Vow that we've got these new products. . . ."

By Thomas Jaffe with Jon Schriber

NO DRUG COMPANY has excited investors more this year than $3 billion (sales) Pfizer Inc. From a low of 32 last year, it has soared to a recent 53¼, or a multiple of 15, a shade below such stars as Merck & Co. and SmithKline Corp. For a company that ranks seventh out of eight in its industry in return on capital, and whose earnings last year rose just 7% to $255 million while margins slipped from 8.7% to 8.4%, this is a surprising vote of confidence.

What's causing all the excitement is that Pfizer, renowned as the slickest marketer in the business, is bringing out a passel of new drugs. Bullish analysts estimate these could generate as much as $800 million in sales by 1984. (Even conservatives see $300 million.) The bulls figure that could push earnings per share from last year's $3.48 to $7 or more over the next four years.

Edmund T. Pratt Jr., Pfizer's stocky, self-assured, 54-year-old chairman, sitting in his corner office high above 42nd Street in the heart of midtown Manhattan, clearly relishes the new respect his company is getting. "We'd like to be at the top, and we think we have the potential to do it," he says.

Before Pfizer can achieve that goal, though, Pratt may have to take a hard look at the company's non-health-care businesses, which range from chemicals and agricultural products to materials science (minerals, pigments and metals) and consumer products. In 1980 these four accounted for 46% of sales, but only 22% of profits. Worse, their operating return on nearly half of Pfizer's almost $3.4 billion in assets was a scant 9%. In contrast, Pfizer's health care, which includes hospital and diagnostic products, turned in a handsome 29% return.

"You must always balance the advantage of some diversification against the fact there is practically no business you can go into that gives you the return of pharmaceuticals," says Pratt.

True. But does that justify the capital he has been pouring into his laggards? Since 1977 Pfizer's health-care expenditures have almost doubled, to $67 million, yet that represented only 41% of capital spending on average during the period. The rest, $92 million in 1980, went into the non-health-care businesses that have been depressing Pfizer's profitability. If Pratt truly wants to be competitive in pharmaceuticals he would have to increase spending sharply. Although Pfizer strongly disagrees, the plain fact is that in 1980, Eli Lilly & Co. spent $147 million on health and Merck even more. That Pfizer even has been able to remain in the same league with its bigger-spending rivals is a real tribute to its marketing skill.

Pfizer got into the drug business late, of course. A bulk producer of vitamins, penicillin and organic acids, it wasn't until the early Fifties that it broke into the ethical market through the discovery of Terramycin, a broad-spectrum antibiotic that still accounts for over $100 million in sales. Rather than zeroing in primarily on the U.S. market, Pfizer instead made its big drive overseas. With Terramycin and other antibiotics paving the way into the Sixties, Pfizer built itself up by broad geographic volume. Of the top U.S. pharmaceutical firms, it still derives the biggest share of sales and profits from international operations—in 1980, 57% and 62%, respectively.

In the late Sixties Pfizer reinforced its reputation as a leader in antibiotics by bringing out Vibramycin, last year a $250 million (sales) drug. But strategy changed when Pratt, a former IBM financial executive, and President Gerald D. Laubach, an MIT-trained chemist who had run Pfizer's research, were named to their current jobs in the early Seventies. The plan: Increase research spending and focus on the invention of drugs that treat chronic diseases. As these drugs were approved, the next step was to hone their merchandising.

"We put as much developmental work into what we license as what we come up with ourselves. For a successful new drug, development costs to find its proper applications, for example, outweigh research expenses by 8-to-1.

"You cannot hype a nothing into a something in this business nowadays," says Laubach, 55, with a benign professorial air. "The customer is too critical and the competition too tough."

A key element to Pfizer's plan is licensing. Two of the big drugs it is counting on were not developed in-house. The company paid a Japanese firm for U.S. and joint Japanese rights to Cefobid, a third-generation, injectable cephalosporin antibiotic (for use in hospitals). Procardia, for the treatment of angina pectoris, was licensed for the U.S. market from Bayer AG of Germany. Pfizer will be able to sell this here exclusively for four years, after which it will compete against Miles Laboratories Inc., a Bayer subsidiary.

"Licensing was an active strategy around here from the very beginning," says Laubach. "Since we started with one product, we badly needed to broaden the line to carry the rent. We put as much developmental work into what we license as what we come up with ourselves. That's important, because for a successful new drug, development costs to find its proper applications, for example, outweigh research expenses by about 8-to-1."

As for the two big hopes that came out of Pfizer's own research, Minipress is an antihypertensive whose sales already have hit some $80 million in just three years. In 1981 it will be launched in Japan. Feldene, the first antiarthritic that can be used just once a day, is being sold in Germany and the U.K. and could be approved by the Food & Drug Administration later this year. But none of these four products seems likely to walk away with the market. Lilly also has a single-dosage drug for arthritis; and Capoten, Squibb's long-awaited hypertension drug, will soon be out. Among the other companies that Pfizer will lock horns with are Merck, Johnson & Johnson, American Home Products, Hoffmann-LaRoche, Hoechst AG, Upjohn, Syntex, G.D. Searle, Marion Laboratories and Knoll Pharmaceutical.

So windfall profits are by no means a sure thing. It costs a fortune to introduce drugs on a worldwide basis, and that squeezes margins. The success of these introductions is all the more crucial because Vibramycin (Laubach calls this and Terramycin the company's "battleships") is coming off patent in 1982.

So now Laubach will have to pump even more cash into drug research. In 1981 Pfizer's R&D budget will be more than $190 million, double the amount of 1977. Only SmithKline's will have grown faster during the period.

"If you want to maintain and improve your position you have to run very fast to replace old declining products with new growing ones," he says. "The first half of the Eighties will be another period of continually increasing R&D spending. This could grow as much as 25% a year."

The company has also announced a $1 billion capital program through 1984. But there is as yet no sign of a change in the way that money is to be spent. Although in 1981 spending will increase 40%, to $230 million, non-health-care activities will continue to receive roughly the same proportion of spending as before.

"They don't seem to have put their money where their mouth is," says Richard Vietor, drug analyst for Merrill Lynch. "Investing a lot in other stuff may have had great merit when there were no new drugs in the pipeline, but that's not the case anymore."

So Ed Pratt has a choice. To support faster growth for his drug business he can pour less capital into non-health-care businesses, sell some of them off or he can take on more debt. Although Pfizer's debt-to-equity ratio dropped from 0.5 to 0.4 over the past five years, it is still the most highly leveraged of the eight largest drug firms, with $583 million in long-term debt on $1.6 billion in equity. Of course, as with most U.S. drug firms, this is hedged against cash and investme piled up in the tax havens of Puerto R and Ireland, where plants are located Pfizer's case, it is some $670 million. while Pfizer could well afford to take more debt, the question is, would t serve shareholder interests as well as g ting rid of businesses that are earning much less on capital? The answer probably not.

Pratt's biggest laggard is the $416 m lion (sales) specialty chemicals—cit acid and vitamins—which required $ million in maintenance spending si 1977. During that period, revenues r almost 37% and operating pro dropped from $34 million to $24 milli Despite this drain, however, it's unlik Pfizer will ditch chemicals because m of its plants are integrated with d manufacturing. Also safe is the $464 m lion agricultural products division, in segment of which, animal health, Pfi is a worldwide leader. This divis mainly manufactures feed additives antibiotics, an extension of its resea on drugs for humans.

But there is no shortage of divestit candidates at Pfizer. Take the $254 m lion materials science division, in 19 only 3% of profits. Its products incl limestone, talc, pigments and refract products for the steel industry. About only growth business this group has cobalt-doped magnetic oxides—used audio and video recording tape— Pfizer is spending $35 million to bu three plants.

Another candidate for the ax is $2 million consumer products (5% of p its). While its line carries such bona f successes as Ben-Gay and Desitin oi ments, Visine eye drops and Pacq hand cream, these are all mature pr ucts and none of them a big enou seller to be an irreplaceable cash cow. for Coty cosmetics and fragranc Pfizer already has taken $7 million writeoffs to reduce its internatio business and is a small factor in t highly competitive market.

"There's no question Pfizer has a lo excess baggage that ought to be sol says David Lippman, drug analyst Dean Witter Reynolds. "If its drugs t off, Pfizer has a real shot at reshaping during the next five years."

Pfizer has said its goal through mid-Eighties is to increase earnings least 15% a year. Some of the Wall Str bulls are looking for as much as a 20 rate. For his part, Ed Pratt is taking this fuss in stride. "People used to Pfizer didn't have any blockbus drugs," he says. "Now that we've these new products, people suddenly going clear the other way. They tend feel we're going to be a miracle."

For Pfizer such a miracle may tak bit more patience than most invest are noted for. ■

MAKING MONEY FROM THE DYNAMIC ECONOMICS OF THE OIL INDUSTRY.

Analyzing oil company exploration and production developments identifies attractive investments for First Boston customers.

By Thomas Petrie

Throughout the '60s, the oil industry spent increasing amounts of money overseas and made substantial investments in refining and marketing. With the 1973 OPEC oil embargo and the resultant soaring prices of crude oil, both these trends were reversed. American oil companies reemphasized exploration and production, and they concentrated spending in North America.

"The key to identifying attractive oil companies has become the ability to estimate correctly the change in the value of oil in the ground."

These changes necessitated new methods of identifying attractive investments among oil companies. During the earlier period of stable prices and availability, investment decisions could be based on overall investment criteria, such as price/earnings ratios and dividend payout trends. When stability ended, it became necessary to concentrate on the liquidating nature of the oil industry: an oil company is truly going out of business the day it produces its first barrel. The only thing that delays the process is discovering additional reserves.

The key to identifying attractive oil companies has become the ability to estimate correctly changes in the value of oil in the ground and the implications of such changes for new investment and development. Unfortunately, reserve values change rapidly. For example, a million-barrel field valued in 1978, a time of fairly rigid price controls, would have been worth about $5 million. That same property, if discovered a year later when newly-discovered oil was decontrolled, would have been valued at $6 to $7 million. And in 1980-81, after another sharp price rise following the Iranian revolution, its value would have leaped to $12 million. A million-barrel field that would have cost perhaps $5 million to develop in 1978 would now deliver a handsome margin even with inflated drilling costs of perhaps $7 million.

Assessing the present value of an oil company's reserves requires analytical competency that stems from in-depth understanding of the geological and other criteria that oil companies use to look at capital investment decisions. Because present-value analysis is only as good as its input is accurate, First Boston's energy group has focused its attention on developing solid technical insights into industry activities. And because part of our research effort is based in Denver, the country's new and fast-developing energy center, we have the added advantage of contact and everyday interchange with operating and decision-making people in the industry. This enables us to recognize immediately important new exploration and production developments.

Utilizing the informed data provided by our on-scene approach, First Boston's present-value model starts with production profiles over the life of the fields. To this is added a pricing profile that starts with the base price of the hydrocarbons produced. From these profiles, First Boston generates a revenue stream over the life of the property and, finally, discounts that cash flow to a present value.

The focus on discounted flow analysis has stood First Boston's customers in good stead during the current favorable market cycle.

"Present-value analysis is only as good as its input is accurate."

Consider that oil stock prices have outperformed the market since August, 1978, with no more than a month or so lapse. If investors had been guided merely by traditional price/earnings ratios, they would have sold when stocks went beyond historic ranges, i.e., over 90 percent of the S&P relative price/earnings ratio. However, by focusing instead on the implications of our present-value analysis, we perceived that some of these stocks should sell at multiples equal to the S&P or even above it. Customers who followed our recommendations in 1980 experienced excellent returns.

Our ability to analyze and evaluate reserves led First Boston to anticipate the importance of the Overthrust Belt and the Williston Basin as emerging petroleum-producing areas. With the current expansion of available funds, we foresee a continued period of dynamic growth for the oil industry. A host of projects that have been backlogged are now economically feasible—particularly for flexible and aggressive major companies and for the independents. This new growth will underscore the importance of present-value analysis for profitable oil investment decisions.

First Boston
Investment Bankers

Tom Petrie, Managing Director and senior oil analyst, is based in Denver. For copies of our Petroleum Group's research, contact First Boston, 20 Exchange Place, New York, NY 10005. Phone (212) 825-2000. Or First Boston, 1625 Broadway, Denver, CO 80202. Phone (303) 893-2266.

Air Florida thought it had the Air California acquisition in the bag. But it hadn't reckoned on dealing with Herbert Kunzel.

The battling trustee

Westgate-California Trustee Herbert Kunzel
He wasn't about to let Air Florida steal Air California.

By Michael Kolbenschlag

WHEN AN IMPRESSIVE, $90,0 promotional extravaganza AirCal played in the Newp Beach Sheraton last month, grandfath ly gray, 72-year-old Herbert Kunzel sat the rear of the ballroom tapping his f to the music, looking every bit the sat fied producer. As well he might.

Kunzel thought up the show to int duce AirCal, the new name for $158 m lion (revenues) Air California, the regio al airline that is the main asset of ban rupt Westgate-California Corp. Kunzel Westgate's trustee and chairman of California. He's also the man responsi for giving AirCal the newest fuel-e cient airplanes (four recently leased M Donnell Douglas DC-9 super 80s) and future that could bring quadrupled re enues by 1984, thanks to such new des nations outside California as Seattle a Las Vegas.

If promotional shows received Osca Kunzel and Air California would pro ably get one—at least in a West Coa vote. On the East Coast the mood more subdued. Eli Timoner, president $161 million (revenues) Air Florida Miami is not applauding. Kunzel's p motional show has generated a lot interest and now Air Florida's $45 m lion takeover of AirCal is being ch lenged by at least one other bidder. "V had a deal but now they are changing t rules," gripes Timoner.

AirCal looked like easy prey when e pansion-minded Air Florida (It never fered regularly scheduled service out Florida until 1978, but today claims have more Miami-to-Europe flights th any other airline) made its bid in 198 Although profitable, AirCal was part C. Arnholt Smith's Westgate empi which collapsed in 1973. The $1 billi failure included the U.S. National Ba of San Diego—one of the biggest ba failures since 1933.

Air Florida was proposing to acqui not only AirCal but the other remaini assets of Westgate—some fishing vess and a tuna cannery in Puerto Rico. T Federal Deposit Insurance Corp.—the ceiver of the USNB and the largest We gate creditor—and another major cre tor were eager to close the books Westgate by selling Air Florida 85% Westgate's preferred shares, and 26% its common, for $14 million. Air Flori was then to tender $18 a share for t balance of the stock to be issued by reorganized Westgate.

First, however, Air Florida had to g Civil Aeronautics Board approval of t deal. During that delay earlier this yea crusty Herb Kunzel, a retired Intern tional Harvester executive, continu his efforts to get more than Air Florida $45 million proposal. "I had the feeli that there was more value in Westga

n we were getting," says Kunzel. nd Air California has become more uable." The airline earned more than) million last year, or nearly one-third re than Air Florida did on similar revies. What's more, AirCal was growing % a year in terms of seat-miles.

Kunzel also knew that if he got more AirCal than Air Florida was offering stood a good chance of making whole $60 million or so still owed to West-e's creditors. That's what Kunzel gets d for as a trustee, earning more than million in fees so far for satisfying or udiating the majority of the $1 bil-n-plus in claims against Westgate. king the last of those creditors whole he says, a matter of pride.

o Kunzel looked for other offers, using promotional scheme and a general 5 million AirCal face-lift as bait. Earlihis month a consortium of California l estate developers, who had been unling to outbid Air Florida in 1980, denly reappeared, offering $35 miln for Air California. Kunzel welcomed bid that was only for the airline raththan for the entire Westgate. As he culated it, the eventual sale of the er Westgate assets could yield an adonal $25 million. This would make California developers' offer worth million to Westgate, or the equivnt of about $21 per share for the West-e common stock.

Air Florida was quick to holler foul. e didn't want the tuna, but the trusttold us it was all or nothing," charges noner. "We were forced to bid on the ire Westgate group."

Kunzel responds to these charges in strongest language:

Air Florida could have purchased Air ifornia alone if they had been willing wait for the reorganization of West-e. But they wouldn't wait, and tried do a deal through the back door with FDIC," he says. "Each deal is judged its value to the creditors. There are eral others who may soon enter the ding for AirCal." And there will bably be a new bid from Timoner vows: "We will do whatever we e to do to acquire AirCal." Herb nzel couldn't be more pleased at the spect.

's turning out to be a good bankruptfor Kunzel. He has already beaten vn the original claims of the FDIC n $300 million to $70 million, claimthe FDIC was in part responsible for acquisitions made by USNB prior to failure. Now he's making the remain-bona fide creditors whole. What's t? Maybe a book on the financial chinations of C. Arnholt Smith, he s. And then there's his new job as a ctor of Itel. He has developed someng of a reputation for working with companies, and he may never get to re again.■

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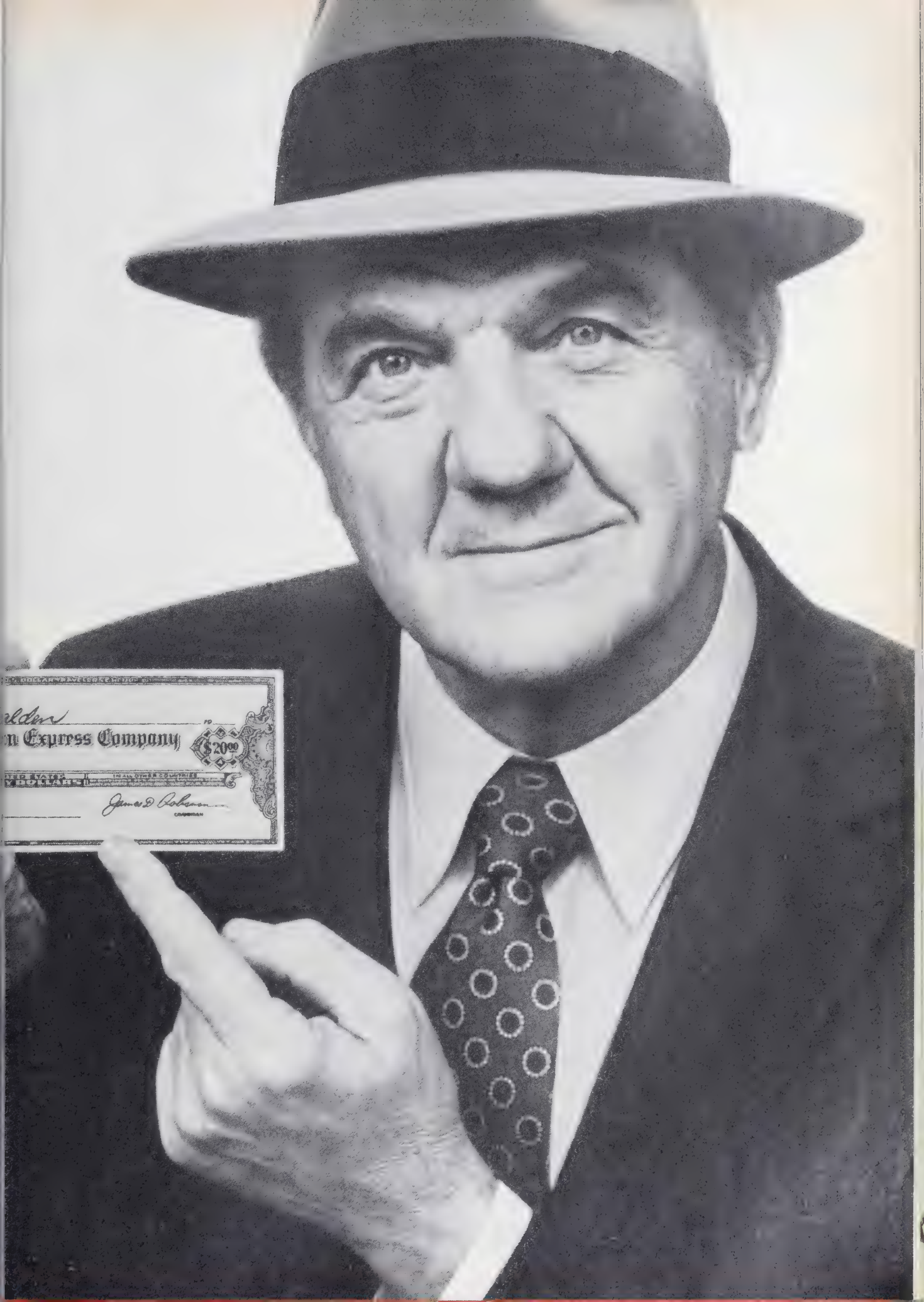
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Beneath Condec's shabby exterior there is at least one gem—the world's largest robot manufacturer. The rest is not as bad as it looks.

Springtime for an ugly duckling

Unimation's Joseph Engelberger (left) *with Norman Schafler of parent Condec Corp.*
"The bankers kept asking me when I'd get rid of the turkey."

By Subrata N. Chakravarty

SINCE 1976 ITS EARNINGS HAVE decli 63% on flat sales volume. In the first of fiscal 1981 it showed an opera loss. Yet the stock of $275 million (sa Condec Corp. sells at a dazzling 27 ti 1980 earnings, while such corpo heavyweights as General Electric IBM sell at just 10 times their earnin

What's going on here? Have W Street's money managers flipped t collective lids? Not necessarily. W Street is betting that Condec, an und able ugly duckling, may be turning in corporate swan. Reason: Its prize sub iary, Unimation Inc., is easily the wor largest maker of industrial robots.

As the U.S. buckles down to the l neglected task of improving the prod tive efficiency of its manufactur plants, the use of labor-saving robot soaring in such functions as welding, terials handling and assembly. The m customer, so far, is the automotive dustry. General Motors recently pla its largest order ever, for 520 robots. N other types of manufacturers, like Ge al Electric and National Lead, are be ning to buy robots. If the long-predic robot revolution is finally under w Unimation, the leader in both techn gy and volume, and Condec's pati chief executive, Norman Schafler, wil the prime beneficiaries.

That Unimation exists at all is a t ute to the vision of its president, Jos F. Engelberger, generally acknowled as the father of commercial robotics, to the faith of Schafler. Engelberger, n 55, has been intrigued by the notion robots ever since he was a young man took the first course in servo theory principle behind the robot's mechani arm movement] ever given, during W War II at Columbia," he says.

But it wasn't until 1958, after a f years of running an unprofitable aircr components subsidiary for an old-l crane company, that Engelberger into the man who would finance dreams of robots: Norman Schafler. just $600,000 Schafler bought up the s sidiary, Consolidated Controls, and g Engelberger the green light to develop industrial robot.

What suddenly made the concept robots economic in the early 1960s wa combination of rising labor costs a lower production costs, thanks to tr sistors and the digital capability of co puters, which reduced component c and size while increasing reliabili Costs have been coming down stead ever since.

But others had seen the same pot tial; some after Engelberger had t them about it himself. "When you're t ing to raise money, you spill your gut Engelberger says ruefully. "I spilled mi to a lot of people. AMF started in t

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robot business then, and so did Borg-Warner, Hughes Tool and General Mills."

By 1961 Unimation had developed and installed its first Unimate robot in a General Motors plant. It didn't look like R2D2 or Frankenstein's monster; it resembled nothing so much as a huge mechanical arm. Engelberger foresaw a 1,000-robot-a-year market, more than Unimation could handle by itself.

As a result, by 1962 Condec needed a partner to help with development costs. Schafler surrendered an effective 51% of Unimation to Pullman Inc. in exchange for an infusion of $3 million in cash. That sounded like a good deal for Pullman, but guess again. After ten years of pouring in $10 million with no return, Pullman threw in the towel and ultimately sold its entire equity back to Condec for $5 million.

Why couldn't Unimation pull out of the red? "When we started out, our robots cost us $60,000," Engelberger explains. "We sold them for $25,000. You see, no one *needs* one. That's a very important philosophical point. If you need a lathe, you've gotta buy it. You can't have people carving by hand. People buy a robot only for the value it gives them in labor savings. So you price to the value."

Few competing robot companies could stand the losses. Even without competition, it wasn't until 1974 that Unimation started making money. "It's been a long, hard road," sighs Schafler. "I can't count the number of meetings I've had with bankers and directors asking me when I was going to get rid of the turkey. It has required a lot of faith."

Now Schafler's faith in Unimation is finally beginning to pay off. Engelberger claims some 70% of robots sold to U.S. factories, and 45% of those sold worldwide outside Japan, are made by Unimation. In Japan, the largest user of industrial robots, Unimation's licensee, Kawasaki Heavy Industries, is the largest robot manufacturer. Under Unimation's uniquely advantageous deal with Kawasaki, Kawasaki pays a royalty on every robot it makes, even those it develops itself. Unimation, on the other hand, has the rights to all Kawasaki's developments free of royalty. So far the agreement has run 12 years.

Between them, Unimation and Kawasaki have 4,600 Unimates installed (80% made by Unimation), with over 15 billion hours of working experience. No one else, Engelberger says, has even 20% of that population in the field.

Unimation now offers the broadest line of robots in the industry, making both hydraulically operated large robots for heavy tasks and small, electrically driven Unimates called PUMAs (Programmable Universal Machines for Assembly) for lighter tasks. At present it makes 60 robots a month, but the duction rate will double by Oct Sales have soared from $8 million i cal 1974 to $35 million in 1980. E berger projects sales of $50 millio the year ending this July and $100 lion next year on the basis of his bac

Earnings are finally looking goo well. To underscore the point E berger explains that he gets no b unless earnings top $1 million, retu investment exceeds 25% and res and development expenditures a least 6% of sales. In 1980 he quadru his salary with over $205,000 in bon

Although one of the driving forc the growing acceptance of robotics been the falling cost of electronics gelberger professes to be unconce about competition from such electr giants as General Electric—which just announced plans to enter the fi IBM or Texas Instruments. "The chanical part is not easy," he points "With a robot, eventually somethin to pick something up and get it t other place, do it reliably, at high s and under adverse conditions. Most ple have fallen down on that. thought they were going to get int business by writing software."

The future for robots? Practically li less, says Engelberger, especially they can "see" and "touch." "I projec industry as being $3 billion by 1990,"

MINDS OVER MATTER: A jetliner that tiptoes out of town

The plane streaks down the runway and soars skyward. But instead of the expected roar, a muffled sound like distant thunder. For this is the new DC-9 Super 80, world's quietest commercial jetliner. The product of inquisitive, analytical minds, rejecting the usual and the expected to find a solution to the problem of jet noise.

he mechanical part is not sy. A robot has to pick nething up and get it to an- ner place, do it reliably at gh speed and under adverse nditions. Most people have len down on that."

ebullient Engelberger. "That's 35% ual growth. We will have $1 billion of /ou want to make book?"

Schafler's faith in Unimation has arently been vindicated, the same not be said of Condec's other busi- ses. While Condec is in some poten- ly profitable and growing business- -ranging from flow control valves d in the energy industry to thermal ulation and defense vehicles (like am- bious cargo carriers) and aerospace nuclear controls—sales have grown wly and earnings have been erratic. e reason is that some of the business- notably flow control and defense, have n flat for some years. Another is that M, a maker of tire-manufacturing and stics machinery has been losing mon- on the tire machinery for several years. all it Schafler's bad luck. Just when mation was finally turning the cor- after 15 years of losses, his other inesses ran into trouble. To keep the nDiesel subsidiary alive, he has accepted defense business at cost for years. Then he shifted production of an experimental large robot, oilfield jacks and parts of howitzer carriages to NRM's large, and mostly idle, plant to support its overhead. Nor has he stopped investing in the businesses. Over the past five years Schafler has spent $17 million on research and $43 million on plant and equipment, although Condec earned only $25 million and had $21 million in depreciation. Why didn't he cut back and wait for better times? "It's all in anticipation of future earnings," Schafler says simply. Not surprisingly, debt climbed almost $80 million to a staggering $108 million in loans and redeemable preferred stock (*vs.* $77 million in equity). That has also added a crushing burden of interest charges, especially this year when Condec's interest rate has at times touched an equivalent 24%.

But hope springs eternal for Schafler. All of Condec's businesses, he says, are looking up despite a terrible first half. The flow control business is improving thanks to increased energy exploration. The insulation business is emerging from its startup phase and should be profitable this year. Consolidated Control's aerospace and nuclear controls for the Navy are growing well and are very profitable. And ConDiesel has won large and lucrative defense contracts, principally for the Army's new howitzer gun-carriage and portable ribbon bridge.

All the while Schafler has continued to buy other companies' rejects. Like Unimation, they have sometimes paid off handsomely. In 1969, for example, he bought the Com Air division of American Safety Razor, which makes arming devices for missiles. He invested in improving its technology and won a major subcontract for the cruise missile.

Another executive might have responded to the years of flat or declining earnings by shutting down businesses, cutting back capital investment and research or selling off promising ventures to show short-term gains. Another executive would certainly have shut down Unimation in the 1960s. Through it all, however, Schafler has plugged along doing what was necessary to stay alive and waiting patiently for his ships to come in. With robots being the newest hot concept and Condec's stock selling at 27 times earnings, Schafler's 14% stock holding would leave him a very rich man at age 63, if he were to sell out. But ask Schafler about it and he says flatly: "It's not my style to sell the company. I built it. I've got total confidence that we can pull it all together and make it look the way it's supposed to look."

Robots, energy and defense. Norman Schafler is patiently waiting for his ugly duckling to turn into the swan he has always known it was. ■

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Foreign investments are all the rage among pension fund managers. This diversification makes sense—but the timing may be lousy.

What's Japanese for "herd instinct"?

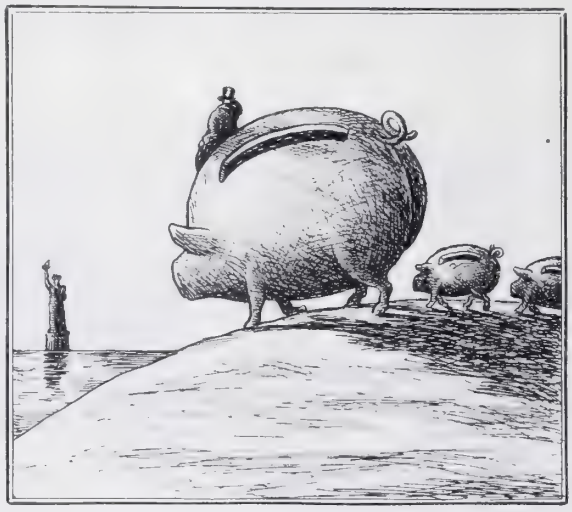
By Jean A. Briggs

NERVOUS FOREIGNERS are socking away savings in Wall Street, in Illinois farmland and in Sunbelt high rises. But one of the latest U.S. investment trends is just the opposite. The professionals who manage some $300 billion in pension funds assets are busily moving money abroad. As recently as 1979, their foreign holdings amounted to only $1.75 billion. By the end of last year, however, they had poured $3 billion into markets from Europe to Australia, and that tide is swelling fast: "By the mid-Eighties, some $25 billion of the funds will be invested overseas," says Chris Nowakowski, head of InterSec Research Corp., a firm that monitors pension fund activities.

There are several reasons behind this move, which is already under way at perhaps one-third of the top 1,000 U.S. pension funds. The seven-year-old ERISA (Employees Retirement Income Security Act) gives investment managers a legal mandate to minimize portfolio risk, and statistical studies done at MIT persuaded people that investing some money abroad does just that. It's the old idea of not putting all your eggs in one basket. Also, many foreign markets outperformed U.S. equities by a wide margin during the Seventies, and a declining dollar made their advances all the more impressive for U.S. investors. In addition, economic growth in places like Hong Kong and Japan is far faster than in North America—a fact that isn't lost on most money men.

Pension funds, of course, don't make a move without lots of thought and advice—and that for the moment is where the foreign investment boom is most apparent. "In 1975 there were 5 outfits offering international money management services," says Nowakowski. "By 1977 the number had grown to 10. Now there are 52." Of that total, more than half are U.S.-based, while the remainder are foreign firms with domestic offices or joint ventures. The field is growing fast: Another 20 international managers will open their doors by year-end.

Among the first entrants were big banks such as Morgan Guaranty, First National Bank of Chicago and First National Bank of Boston and smaller specialists like U.S. Trust and Fiduciary Trust. Then came two foreign-based firms, Lombard-Odier of Geneva and S.G. Warburg, a London merchant bank. Now over a half dozen more European firms have U.S. offices.



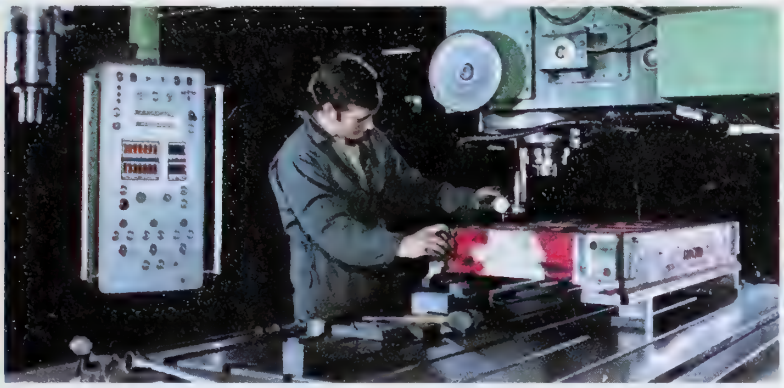
Domestic money managers such as Batterymarch and Fidelity offer overseas investment advice, as does Scudder, Stevens & Clark, which has had a mutual fund for overseas investing since 1953. More recently Kemper Financial formed a joint venture with Murray Johnstone, a Glasgow firm, and Warburg may soon combine with Aetna Insurance to broaden its base. Bank Julius Baer, a Swiss firm, recently hired Morris Offit, a former Salomon Brothers partner, to help market its overseas services in the U

Building a foreign asset base is m complicated than simply picking sto Investors must study individual nati economics, currency fluctuations an nally individual industries. Selecting individual company, in addition, quires a knowledge of its worldw competitive position. A prerequis says Scudder, Stevens & Clark's Will Holzer, is understanding foreign counting systems and tax laws: " disclosure in foreign countries is not as comprehensive as in the U.S., wh is another reason we like to visit m foreign countries that we invest in."

Warburg's Richard Oldfield illustr the method. His firm, for example, li Japan. Japan's stock markets have 15% of the world's capital, but th where Warburg is putting 45% of assets of clients wishing to invest side North America—up from just 9 1979. Why? Inflation is falling in Ja and growth prospects are good. Oldf feels the yen isn't overvalued, and thinks the current annual spring w push is likely to be successful—giv consumers their first real rise in wage years. Thus Warburg likes such stock Hitachi Credit, a small loan compa and Marui, a retail chain.

Down-the-line assumpti that lead to such investme don't come easy. And regard of what MIT's computers spit about risk, monitoring over holdings on a day-to-day basi clearly more difficult than s ing on familiar home turf. reason for all that bother is recent heady gain in fore markets. Over the past six ye according to Geneva-based C itol International, the eq markets in Europe, Australia the Far East returned an aver of 20.1%, while the S&P's up 17.4% and A.G. Becker's dian U.S. investment fund gai only 12.6%.

To the extent that these r investments represent balan diversification for U.S. pension funds course, today's international emph will surely be healthy over the l term. But the timing may be awkw The moment to buy equities in Eur and Asia is hardly when they are rid a wave of strong performance and w the dollar is regularly hitting new hi against the mark and the yen. Even year, only three of the top ten fore markets fared better than U.S. inde "The momentum has already built and fund managers are sticking their toes into the water," says M. Da Testa, president of Rowe Price-Flemi Unless these foreign advances proc with caution, some money men may wetter than they intend. ■



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Omark Industries got tired of being a slave to cycles, so it reached out to the handy homeowner to balance its business.

Chain leader

By William Harris

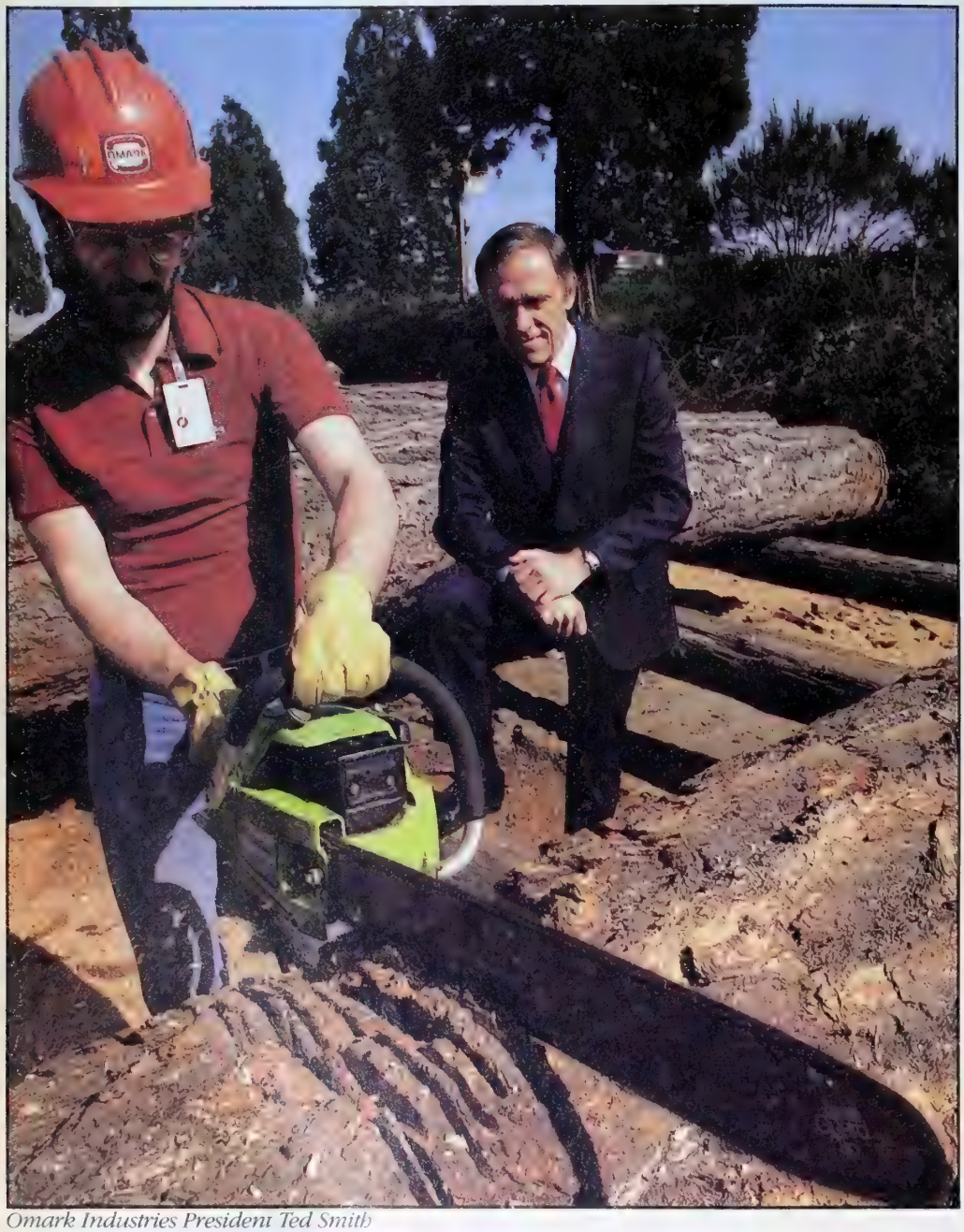
HOUSING STARTS ARE DOWN ar the outlook for an upturn bleak right now. The timber i dustry, naturally, is in another of i cyclical recessions. Yet President T Smith of Omark Industries Inc.—tl world's leading maker of cutting cha for power saws—says, "I expect o earnings [in the fiscal year ending Ju 30] to drop, at worst, no more than 10 from last year," when the compa earned $25 million, $3.57 a share, $251 million in sales.

That's a remarkable performance f Portland, Ore.-based Omark, which su plies close to two-thirds of the cutti chains that professional lumberjacks u In 1975, the last time timber hit tl doldrums, Omark earnings fell 38%.

But that decline proved a tur ing point. To overcome the fore industry's cycles, Omark aggre sively began to go after the hom owner, the do-it-yourself cha saw user, pushing its Orego brand chains through mass me chandise hardware stores inste of distributing only through sa manufacturers' dealers. Not on did sales grow—chain sales co stitute 61% of Omark's 141 companywide gain in sales sin 1976—but operating profits i proved dramatically, from 14 back then to 20% in the last tv years. Return on shareholders' e uity has been running at reco levels as well, averaging abo 24% over the last two years.

"There's little difference b tween chain used in professior and in consumer chain saws," e plains Ted Smith. Except t margins: Sales to the han homeowner produce far bet margins than sales to saw mar facturers or professional logge Consumer acceptance of an i plement that was better know in horror movies than in hom has made the chain saw as co mon in suburban toolsheds as t power drill and hedge trimm and helped Omark balance business. The company gets 36 of its chain sales from the hon use market today, *vs.* 64% fr industrial use.

But will those handsome m gins draw a crowd to the ch business? Although two s manufacturers, Homelite a Stihl, already make some of th own chains, Smith says doesn't think the other two n jor saw manufacturers, McC loch and Beaird-Poulan, w reach for a piece of Omark's p What may keep them from try



Omark Industries President Ted Smith

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is Smith's continual spending on manufacturing efficiency at Omark's chain plants in Portland, Puerto Rico, Canada and Brazil.

Twenty years ago Omark's nonunion workers assembled cutting chain by hand, a costly process. In a particular 6-inch strip of chain there are 41 precision-engineered pieces, strong enough to hold together while slashing wood, but flexible enough to rotate at tremendous speeds. Today one machine can turn out as much chain as 63 workers formerly did. Thousands of individual pieces—cutters, drive links, tie straps and rivets—spill into one end of the assembling machine while finished chain snakes out the other. A built-in microprocessor alerts the operator to any malfunction, while six maintenance engineers per plant hold machine "downtime" to a minimum. The result: Omark's manufacturing costs have grown by only 16% in the the last five years, less than a third of the general inflation rate.

And Smith, 61, Omark's boss for the last seven years, keeps pouring it on. Some $25 million—three-quarters of Omark's fiscal 1981 capital expenditures—will go toward chain-making efficiencies, with another $30 million earmarked for next year. He is also expanding capacity.

"Although the U.S. home users market will be slowing over the next few years, we're just beginning to tap the foreign consumer market," says Smith, relishing the prospect. His whole background is international. Born in China, the son of an American oil executive, Smith spent 14 years in export work, following three years at Stanford, before joining Omark in 1959 as its international marketing manager. He expects consumer chain sales to grow as rapidly abroad as they have in the U.S.—24% a year compounded annually in recent years—and he sees potential in the professional market overseas as well. "We're selling chain in over 100 countries, but there's room for further market penetration, particularly in places like Russia and China." Omark will not, however, license its chain-making technology overseas. Smith wants the whole nut—both manufacturing and selling.

From chains and related items—55% of Omark's sales—plus smaller stakes in .22-caliber ammunition, log-loading equipment, consumer cutting tools and industrial fasteners, Smith aims to hit $750 million in sales by 1985. He hopes to keep earnings growing 15% a year, he says, and to maintain return on equity at 19% or better.

For future growth, he is excited by Omark's Trak-lok, a clasplike device that fastens rails to ties, replacing the traditional railroad spike.

"The potential is staggering," says Smith. "The fasteners sell for $3.25 apiece, but four of them are used per tie. About 21 million railroad ties are replaced every year, a potential $270 million annual market."

Although spikes are considerably cheaper than Trak-lok fasteners—at least in the short run—Smith claims spikes don't hold nearly as well and have to be rehammered often because they come loose. U.S. railroads, while testing Omark's device, aren't rushing to buy. But Australian steelmaker Broken Hill Proprietary is buying $4 million worth of Trak-loks for its in-house railroad, the first large commercial order. "This could be a tremendous business for us, even changing the whole company's direction," says Smith grandly, before remembering to add, "We're not count on that yet."

Omark, a highly profitable comp with a solid brand franchise, would m a juicy target for acquisitors. But insid control 41% of Omark's stock, so Sm has no worry there. The biggest buye Omark stock, in fact, has been the co pany itself, which several years bought back 25% of its shares. "C stock was selling below book valu Smith says, "and was the best buy in market."

Smith may still be right about that, the market appears to be waiting evidence that indeed Omark is no lon a cyclical company. The results for 19 therefore, could be persuasive. ■

Congress seems ready to expand Individuc Retirement Accounts in order to boost savin and ease the plight of Social Security.

Saving the tax-deferred penny

By Beth Brophy

SIGNS OF A SHIFT IN emphasis: After years of allowing the tax system to encourage borrowing—through deductibility of interest—sentiment is growing in Congress to increase the tax benefits for saving. There is a consensus building that more people should be eligible for tax-deferred savings in Individual Retirement Accounts and that limits be raised on annual savings contributions.

The objectives are to create a pool of long-term savings in the economy and to ease pressure on the Social Security system by encouraging Americans to put by something extra for retirement. Approval of the expansion could bring a secure supply of deposits to the nation's banks and savings and loan institutions, and be a boon to long-term savers.

IRAs, of course, have been around since 1974, when Congress created them for workers not covered by employer pension plans. But they have never proved popular. Only 2.5 million out of an eligible 55 million taxpayers have opened IRAs, according to the Treasury Department, which—fearing loss of tax revenue—will probably oppose the program's expansion. But prominent members of Congress—Republican Senat Robert Dole of Kansas, Barry Goldwa of Arizona, John Chafee of Rhode Isla Democrat Lloyd Bentsen of Texas a Representative W. Henson Mo (R–La.), along with Florida's Democra Senator Claude Pepper, a leader on reti

The joys of tax deferral

Here's a comparison of how muc you'll have from a $1,000-per-year in vestment at 8% in an IRA and in taxable savings instrument, assumin a 40% tax bracket for the latter.

Term (years)	IRA	Taxable savings
1	$ 1,080	$ 629
5	6,335	3,461
10	15,645	7,835
15	29,323	13,366
20	49,421	20,356
25	78,951	29,195
30	122,341	40,369
35	186,097	54,494
40	279,774	72,351
45	417,417	94,925

Source: Julia M. Walsh & Sons, Inc., Washington, D.C

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Ireland	4.65	3.60 B
Italy	6.15	4.95 B
Luxembourg	6.15	4.95 B
Monaco	6.15	— A
Netherlands	6.15	4.95 B
Norway	6.15	4.95 B
Portugal	6.15	4.95 B
San Marino	6.15	4.95 B
Spain	6.15	4.95 B
Sweden	6.15	4.95 B
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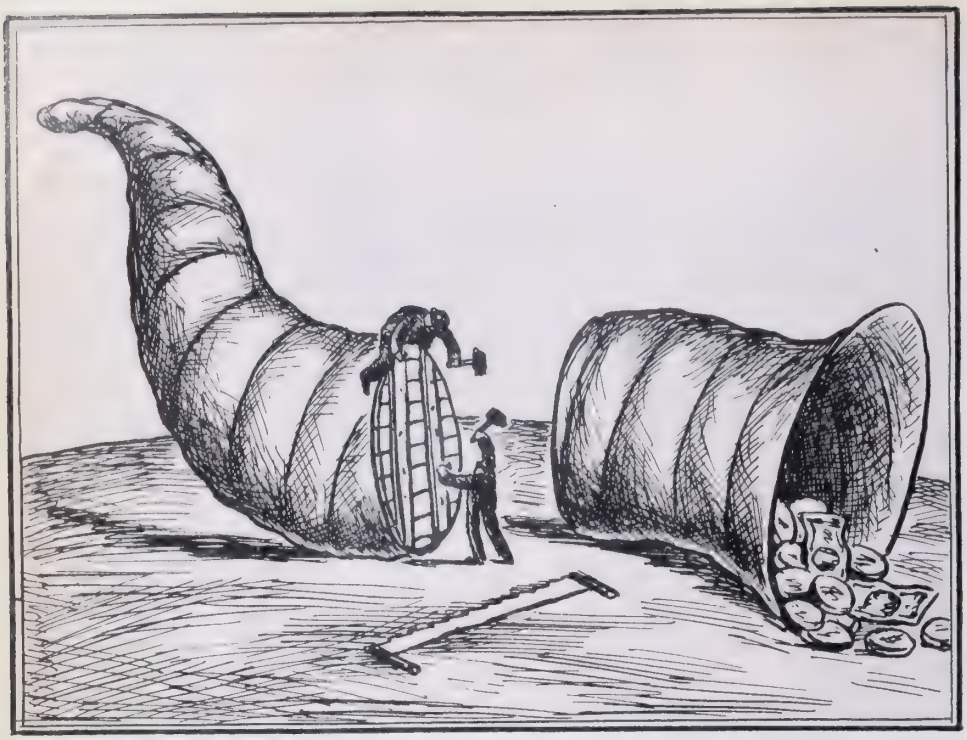

"IRAs are a sleeping giant," says President Robert O'Brien Jr. of Carteret Savings & Loan Association. "So many people would start them that savings institutions could return to the long-term mortgage market. Legislative action is anticipated by year's end.

ment issues—are treating the IRA as an idea whose time has come at last.

Among the approximately one dozen separate bills now in the legislative hopper, the most popular proposals would: allow employees already covered by private pension plans to make additional tax-deductible contributions to their company plan or set up their own IRAs; let housewives set up individual IRAs, thereby increasing total family contributions, and raise annual contributions from $1,500 to $2,000 or $3,000.

There are other proposals that would allow early withdrawal of IRA savings to pay for education or housing. In fact, so popular is the IRA idea that it is becoming a catchall. "I'm waiting for someone in the Michigan delegation to introduce a bill setting up automobile accounts for those saving to buy an American car," quips one congressional staffer.

But bankers are enthusiastic. "IRAs are a sleeping giant," says President Robert O'Brien Jr. of Carteret Savings & Loan Association in Newark, N.J. "So many people would start them that savings institutions would be able to return to the long-term mortgage market." Savings banks in New York and the Northeast are asking customers to sign petitions and to write their congressmen urging the spread of IRA eligibility and the raising of limits on contributions to $5,000. Legislative action is anticipated by the end of the year.

Currently, the IRA form of saving works like this: Employees may deduct 15% of gross income, or $1,500, whichever is less, and place it in a custodian account with a bank, savings and loan, money market, brokerage firm or other financial institution. Interest on the savings account isn't taxed until the withdrawal of assets, which under present legislation must begin between age 59½ and 70. The idea is to postpone taxes until the employee is retired and presumably in a lower income bracket. The significant benefit comes from the great compounding of gains on the tax-deferred savings *(see table, p. 68)*.

An IRA with annual contributions of $1,000 for 30 years earning 8% would grow to $122,341 (the $30,000 savings, plus $92,341 interest), while the same amount without tax deferral, assuming a 40% tax bracket, would grow to only $40,369.

Despite that, only some 10% of those eligible and earning $20,000 or less set up IRAs, although 53% of those earning $50,000 took advantage of the program.

The masses were deterred by complex regulations penalizing preretirement withdrawals and prohibitions on using IRA accounts as collateral to borrow. "I can't even understand the rules," admits former Deputy Assistant Treasury Secretary Daniel Halperin. And the fact that financial institutions didn't pursue them with an aggressive sales effort hasn't helped either. "The securities industry doesn't push them because the contributions are too small to bother with the paperwork," says stockbroker Daniel Quigley of E.F. Hutton.

Even the savings and loan industry hasn't been aggressive, despite the fact that $8 billion—almost half the $18 billion currently invested in IRAs—is placed with S&Ls. "About 2% to 3% of our advertising budget goes to attracting IRAs and Keoghs [IRA-type accounts for the self-employed]," says Carteret Savings' O'Brien. The S&Ls were reluctant to hire investment specialists to handle IRAs, which aren't limited to mortgages but can be in anything from diamonds exotic cars. And besides, they used have less difficulty holding on to lo term deposits.

Now all that has changed. An expa ed IRA seems like a godsend to S&Ls a banks, and they are lobbying hard.

But an expanded IRA program wo help solve other problems in the natio retirement system. Professional asso ations favor them because company p sions are unsuitable for the mobile e ployee who changes jobs a few tim during a career. "Many of our memb change employers again and again, f feiting pension after pension, and never qualify for an IRA because they almost always 'active participants' in employer-sponsored plan," says Da Lewis, chairman of the pension ta force for the 160,000-member Instit of Electrical and Electronic Engineers.

The President's Commission on P sion Policy has recommended expand IRAs in combination with mandat private pension plans. "Without t mandatory part, savings levels would crease because employers would sim terminate their employee pension pl and tell their workers to set up IRA says Thomas Woodruff, the Comm sion's executive director.

Finally, expanded IRAs respond worries over the future of Social Secur Politicians and government economi are already talking about forcing Am cans to retire later, cutting benefits paying Social Security out of general r enues. Broadening the IRA would h more people save for their own ret ment, which accords with the Admin tration's philosophy of encourag Americans to do as much as they can themselves. ■

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It's business.

In fact, right in the heart of thoroughbred country, you'll find companies like IBM and Jerrico. And less than a short gallop from historic Churchill Downs, you'll find General Electric, Humana, Brown-Forman and Brown and Williamson just to mention a few.

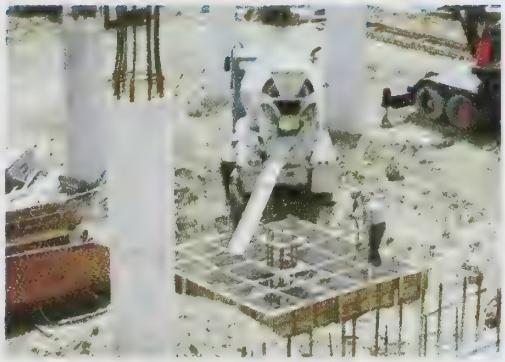
Many Kentucky businesses have deep roots here, while others are new to the Commonwealth. These are companies, like General Motors, that went through an extensive search process before finally choosing Kentucky for its new Corvette assembly plant.

The reasons for that selection vary by company. But the starting point is Kentucky's strategic location between the Sun Belt and the Manufacturing North. Major transportation facilities turn this central location into an attractive business advantage. And Kentucky builds on that advantage with an abundant availability of energy.

Kentucky is the nation's leading producer of coal. There are also major energy reserves of natural gas and crude oil. Of all the states, Kentucky may well be the closest to being energy self-sufficient.

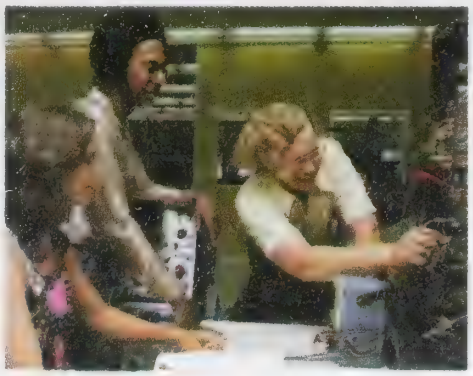
People are another rich Kentucky resource. Companies can draw from a large and productive labor force.

When you add it up, all the essentials for a successful business are here, including a positive business attitude that starts with Governor Brown and extends throughout Kentucky state government. All the essentials for a full, rich life are here, too.

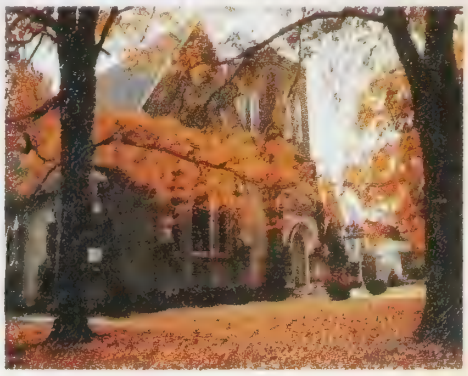


Major construction is in progress throughout Kentucky. In Louisville, "The Galleria" project is virtually providing a new core for downtown. Major downtown redevelopment is also underway in Lexington. The Galleria alone represents an investment of more than $100 million, and total construction in Kentucky in 1981 could exceed $10 billion.

One of General Electric's largest manufacturing plants, Appliance Park, is located in Louisville. Produced at the Park are a full range of kitchen appliances for the home.



Kentucky is a national leader in vocational education. There are 14 state vocational schools and 69 area vocational educational centers. There's also an active Kentucky Industrial Training (KIT) program that develops skilled manpower for new or expanding businesses.



There are over 9,000 churches and synagogues in Kentucky, with membership of more than 2 million.

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KENTUCKY & CO.

Barrels. Ladders. Furniture. Fixtures. If it's made of wood, chances are it comes from Kentucky. Both the lumber and wood products and the furniture and fixture industries are growing at a rate exceeding the national average.

Kentucky is a strong producer of a diverse list of farm products. Corn, wheat and soybeans are the largest cash crops, with both beef and dairy cattle representing sizable farm industries.

The world's record small mouth bass came out of a Kentucky lake. And chances are, there are some even bigger fish waiting to be caught in Kentucky's 200,000-plus surface acres of impounded water and lakes. There are also some 14,000 miles of rivers, streams and creeks. Excellent fishing is just one reason Kentucky tourism has grown to be a two-billion dollar business.

Kentucky has 1,453 miles of commercially navigable waterways. That's more than any other state except Alaska. More importantly, these waterways are an expedient and inexpensive way of transporting bulk materials to both inland markets and Gulf ports for export.

Founded in Kentucky

Thriving in Kentucky

Kentucky! A great place to live and prosper. Ashland Oil applauds Governor John Y. Brown Jr. and his program to attract new industry to the state.

Ashland Oil was founded 57 years ago in Kentucky and today is one of the largest international corporations, with headquarters and more than 70 other offices and plants located throughout the Bluegrass State. Our commitment to Kentucky is greater than ever.

We know when Gov. Brown talks about Kentucky & Co., he's describing the favorable climate for business that exists in the state.

Kentucky values business. As the largest corporation headquartered in Kentucky, we're proof of it.

Ashland®

Ashland Oil, Inc., Ashland, KY

KENTUCKY & CO.

Much of what you're reading about Kentucky, we've underwritten.

For the past 127 years, Hilliard, Lyons has helped underwrite the dynamic expansion of Kentucky. Working closely with The Commonwealth, we're helping major things happen in economic development.

In fact, in the last five years alone, we've raised more than a billion dollars for business. And now, we're well on our way to our second billion.

To meet the increasing capital needs of expanding business, we offer the region's strongest portfolio of resources and talents. At Hilliard, Lyons you'll find a large and growing staff of highly talented and motivated people.

- A proven record of experience and performance in corporate and municipal financing.
- Established channels of distribution of securities through over 160 brokers in 20 Kentucky, Indiana and Ohio cities.
- A leading market maker of Kentucky municipal bonds and locally based companies' common and preferred stocks.
- An expanding base of permanent capital.

So if your business is expanding to Kentucky, expand with Hilliard, Lyons.

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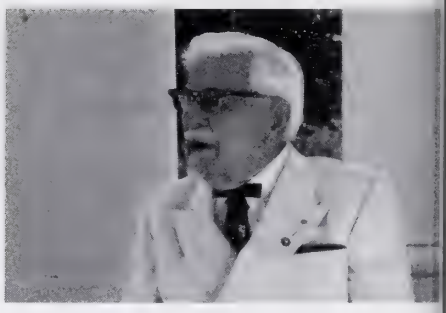
Member: New York, American and Midwest Stock Exchanges and SIPC

Three major airports serve Kentucky. Major air service is provided by American, Braniff, Delta, Eastern, TWA and United. There are flights with connections that can take you anywhere in the world.

Over 60 percent of the nation's bourbon is produced in Kentucky. The limestone water found only in Kentucky is considered to be the purest and most suitable for producing fine bourbon. Major distillers in Kentucky include Glenmore, Medley, National Distillers, Brown-Forman, Schenley, and Maker's Mark.



At the age when most men retire, the late Col. Harland Sanders started a new career and new concept in fast food. The Colonel is only one of the many famous Kentuckians, among them Daniel Boone, John James Audubon, Abraham Lincoln, Jefferson Davis, Adlai Stevenson and Muhammed Ali.

We're investing in Kentucky.

When we decided to build this new $400 million aluminum processing complex, we needed to find a good location—one near plenty of power, a good labor pool, in a friendly business environment. We didn't have to look any farther than Logan County, Kentucky. Our new operation is one of the largest investments in the TVA region in recent years, and we'll become one of the TVA's biggest customers.

The complex will be fully operational by late 1983. The plant will employ the latest technology to produce beverage can stock and other rolled products, and have an ultimate capacity of a billion pounds a year. We have four other plants already in operation in Kentucky, and with this addition we'll have approximately $750 million invested in the state. We think we've put our money in the right place.

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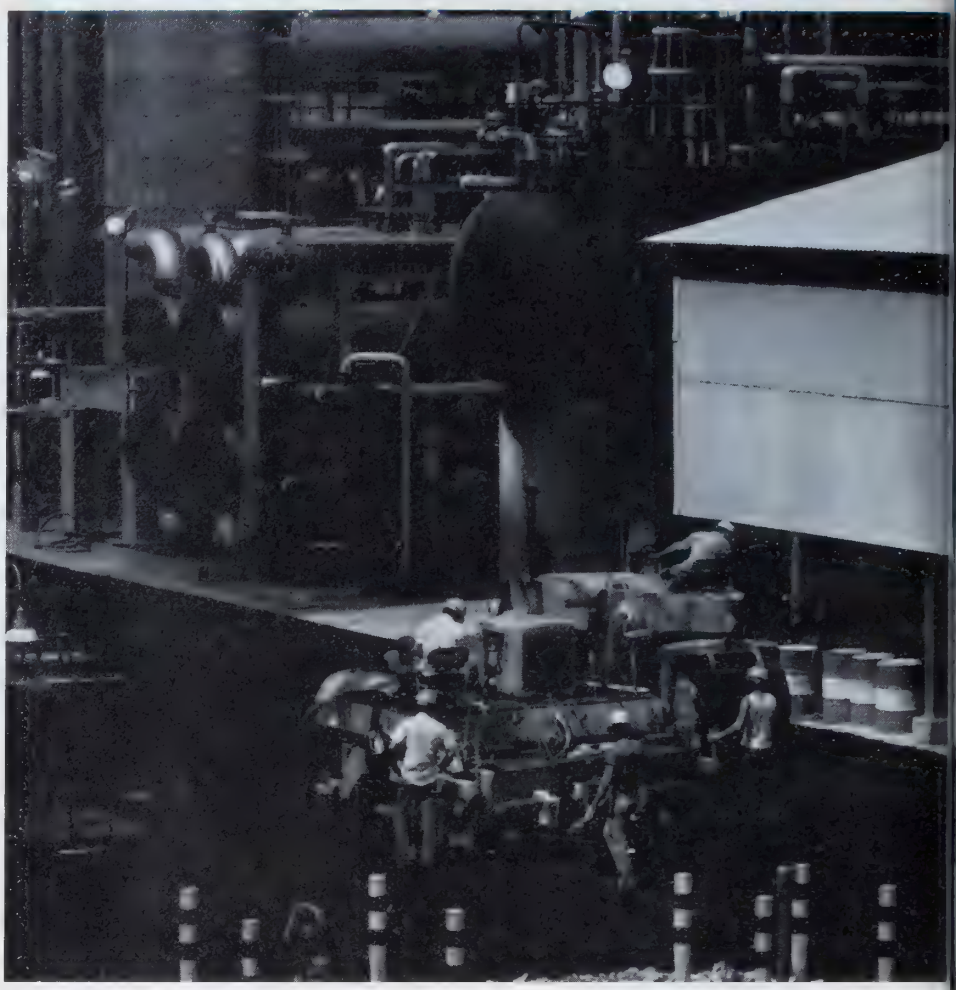
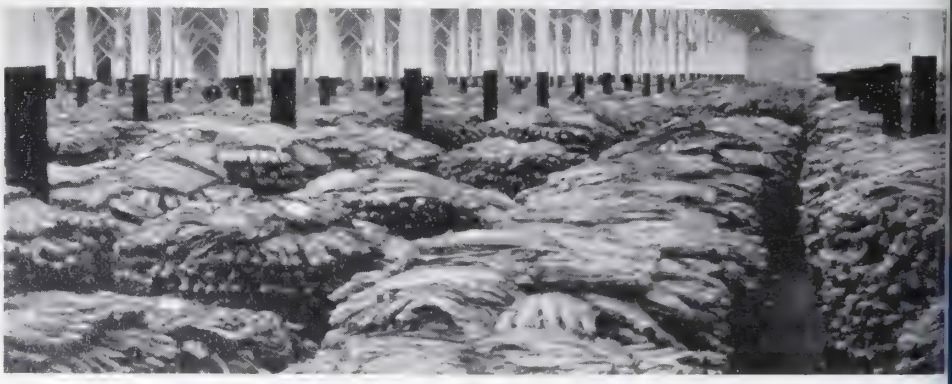
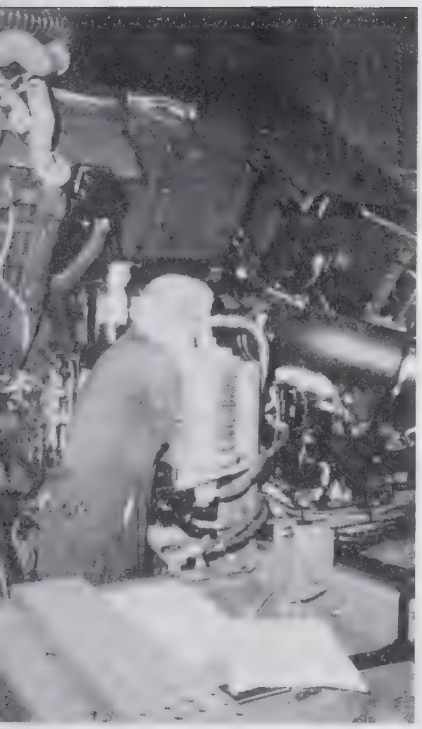


Ashland Oil is the largest corporation headquartered in Kentucky. It's followed by Texas Gas Transmission, Humana and Brown-Forman. Kentucky offers a very competitive tax structure as well as a full range of industrial financing options for new and expanding businesses.



Of all Kentucky's many farm products, tobacco is the leader with sales of over $700 million annually. Kentucky is the largest producer of burley tobacco and Brown & Williamson, a major marketer of tobacco products, is headquartered in Louisville.



Ford's heavy-truck plant, located in ntucky, is the largest truck-assembly plant the free world. Ford also builds light ıcks at another facility in Louisville. neral Motors is building a major assembly ınt near Bowling Green.

The Arts are alive in Kentucky. Actor's eatre—shown here performing "Whose e Is It Anyway?"—was awarded a special ony" as an outstanding regional theatre. e Louisville Orchestra has an exciting new ısic Director in Akira Endo. And the ıisville Ballet has featured performances Baryshnikov for two years in a row.

Your comments are invited on your letterhead, please.

If you'd like a booklet describing our distillery tour, drop Ray (or Clay) a line

VISIT JACK DANIEL'S DISTILLERY and it's likely that one of these gentlemen will show you around.

That's Garland Dusenberry, our weekend guide, standing on your left. Big Yodeler Brannon is the gentleman with the walking stick. And the Rogers twins, Clay and Ray, are seated in between. Behind, you've got Boss Edens, Billy Carpenter and Lamont Weaver. Each of these boys can talk forever about Jack Daniel's. But just a sip, we believe, will tell you a whole lot more.

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This is one of our hometowns: Louisville, Ky.

Louisville

oves livin'

Louisville is The City of the Arts—where the finest art is the art of living. It may have more culture per square inch (in its renowned Actor's Theatre, opera, symphony, ballet and museums) and more ways for its citizens to enjoy themselves (from horses to balloons) than any other city in the country.

But that's a boast that only a visitor would make. Louisvillians take their wealth of civic charm in quiet stride. And the nearest a resident comes to chauvinism is the mild admission that "It's a nice place to live," and the confident assumption that you'll soon discover it for yourself.*

You will. In the sparklingly modern and breathtakingly-designed Riverfront Plaza and Belvedere. Or colorful "Heritage Weekends" where native Louisvillians (like those celebrating their French heritage in dance) keep the treasures of the Old World alive in the New. In the pounding excitement of Kentucky Derby Festival—or in the slow and serene old paddle wheeler, Belle of Louisville, cruising the Ohio in stately elegance.

From the classic gracefulness of the University of Louisville to the crisp skyline of the modern city, Louisville's love of quality in things old and new comes through in everything Louisvillians make. That's one reason you'll find our own famous brands of quality cigarettes made here. And if you'd like to see Louisville's modern methods at work in an ancient craft, come and visit us at our plant shown at the left. You'll find a welcome and discover for yourself Louisville's not just a nice place to live, but a lovely place to visit.

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The nation's third century offers an exciting challenge for America... Texas Gas plans to play a key role in meeting that challenge.

As operator of a major natural gas pipeline, Texas Gas moves energy from the producing areas of the South and Southwest to an energy hungry economy.

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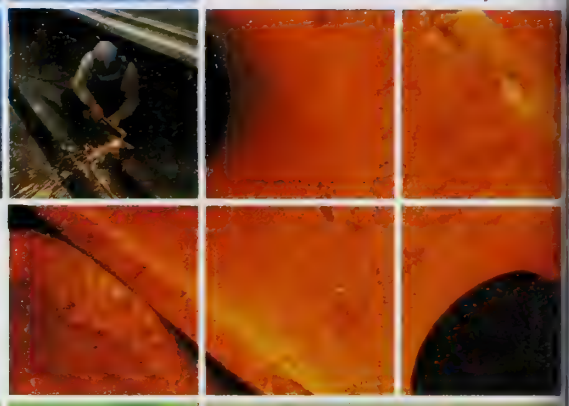

Energy and Transportation

As the nation moves toward the 21st Century, Texas Gas is planning ahead to help provide the key ingredients for a robust economy.

Energy is the bedrock upon which economic progress is founded. It fuels the nation's factories – provides the essential raw materials for thousands of products – is the motive power for the nation's goods as they move to market, and for its people as they pursue the goals of the future.

Transportation is energy's partner in the bright future which lies ahead. The nation's highways and river systems are the conduits upon which raw materials are moved to industry and upon which finished products are moved to American consumers.

Texas Gas is heavily involved in both energy and transportation.

As a major trucking enterprise, we move general commodities throughout the Central and Eastern half of the nation, and move new trucks and automobiles from manufacturer to dealer – nationwide.

As an oil and gas exploration and production enterprise, we search out vital new energy supplies to fuel the future's urgent requirements.

Texas Gas

Texas Gas Transmission Corporation
3800 Frederica Street
Owensboro, Kentucky
42301

ıergy equipment builder CBI Industries may ; an amateur at making acquisitions, but it's rtainly a pro at picking stocks.

More than meets the eye

By Lisa Gross

WHEN CHAIRMAN Marvin G. Mitchell and now-retired Finance Senior Vice President lliam M. Freeman started playing the ck market with CBI Industries Inc.'s ess cash back in 1972, it seemed like no big deal. After all, CBI—then called Chicago Bridge & Iron Co.—was a big, $354 million (revenues), first-class company that had been building metal tanks and structures for the oil and utility industries since the 1920s. The company had no long-term debt and followed very conservative accounting practices. If Mitchell and Freeman thought they could improve their return on the corporate fund, more power to them.

Industries Chairman Marvin G. Mitchell
're just like bees to honey. We go where the spending is."

Well, the latest results are in. CBI's securities investments earned an annual return of 80.6% last year, contributing $35.5 million to the company's $113 million pretax income. Being conservative, CBI carries its portfolio in the balance sheet at cost, $52.75 million. The market value at the end of 1980 was a cool $109.4 million, and when the company invests any more it will have to register with the Securities & Exchange Commission as an investment company.

Why did it become such an active investor? Because of taxes. Before 1972, CBI's cash was invested in certificates of deposit and Treasury bonds. But the mathematics bothered Mitchell and Freeman. At 4% interest, CDs were a low-return investment taxable at the full 48% corporate rate. On equally secure utilities stocks, CBI could earn 7% from dividends and be taxed at an effective rate of only 7%, thanks to the 85% exclusion rule covering dividends from one corporation to another.

With a nod from the board, the two took $15 million from the corporate fund and bought shares in utilities like Florida Power & Light, Illinois' Commonwealth Edison and Texas Utilities. Then they sat back, preparing to receive the applause of impressed stockholders.

Right away, Mitchell and Freeman got burned. Oil prices soared, and utilities that CBI had invested in failed to receive rate increases. By the end of 1974, recalls Freeman, "we had a 33% unrealized loss in that fund. It was embarrassing to go before the annual meeting and take our lumps from the stockholders. After all, we regarded ourselves as quite brilliant for having gotten out of CDs in the first place."

They pulled out of utilities fast, concentrating more and more on industries CBI knows best—oil service, exploration and drilling companies. "We're right in the middle of maybe half of their new projects," Mitchell, a 64-year-old Georgia Tech engineer with 41 years in at CBI, points out. "You get a pretty good feel for how adept they are at running their own business. So we were in oil service securities two or three years before the market seemed even to discover them," he says in an accent that remains smooth Georgia.

By 1976, about $45 million of CBI's cash was into the likes of Noble Affiliates, Western Co. of North America, Halliburton, Schlumberger, Geosource, Baker International and Parker Drilling (Chairman Robert L. Parker now sits on CBI's board), earning 25.2% return, pretax.

In 1978, Mitchell decided acquiring drilling companies would be even better than investing in them. Rowan Cos., Inc., a Houston drilling contractor, was

Last year, half a decision makers go

Corporate jets

More to the point, they had every reason for doing so.

Because, until now, executives who found themselves taking thirty or forty long-distance business trips a year had but two options.

The first was the airlines. The subway system of the sky, so to speak.

The second was the private corporate jet. For executives with the muscle tone to sit cramped for hours, the patience to keep stopping for fuel and inordinate amounts of money to burn.

The airlines: Even as they raise their fares, they lower our expectations.

The airlines have two major drawbacks. The routes they don't fly, and the routes they do fly.

CAB statistics covering the two-year period since the onset of deregulation show that less profitable routes are being dropped at the alarming rate of over 42 cities per year.

On routes they do fly, rising air fares are overtaken only by rising columns of red ink, making further price hikes more than likely.

And let's not forget the traffic jams to the heavily congested airports, the long lines at the ticket counter and the gate, the indifferent flight attendants, the curious food, the movie they show while you're trying to work, and, of course, the luggage that flies north even as you fly south.

What you can forget is the most important requirement of high-level business travel in the twentieth century.

Random access. The ability of an executive to fly anywhere at a moment's notice. Be it to sign a merger, beat a deadline, handle a crisis or negotiate a treaty.

There is, in fact, only one conceivable way for a corporation to give its top executives random access to jet transportation.

Give them random access to a jet.

And considering the aircraft available until now, the reluctance of most corporations to do so is almost forgivable.

The corporate jet: If man was meant to fly, why did they make it so expensive?

The forerunners of corporate aircraft like the Falcon 50 and the Gulfstream III were designed fifteen and twenty years ago respe tively, when a gallon of jet fuel co less than a dime.

Which explains why the designers were so unstinting in the amount of fuel they allowed thei machines to feed on.

But then, in the sixties, you could get away with things like t

The problem is, the basic d signs of the airplanes and the built-in need for large amounts o fuel that go with them have bee perpetuated in their newest offspring.

So that flying the Gulfstrea across the Atlantic and back, fo example, requires the purchase no less than 5,230 gallons of jet

(The Gulfstream III is also every bit as noisy as its predece sors. Nearly three times as loud the Challenger on takeoff, twice loud on approach for landing ar over four times as loud on sidel which is precisely where noise has the most impact on the surrounding community.)

What executives clearly require, then, are corporate jets th strike an entirely new balance b tween bigness and comfort on one hand and uncompromising

million of the world's on the wrong plane.

The airlines

gality on the other.

And that can hardly arise n a concept of air travel based he ease and abundance of sixties.

It has to come from a con- t of air travel born of the gas s and fuel shortages and e hikes of the seventies.

ne Canadair Challenger: It will fly you more onomically and in greater comfort than any other tercontinental corporate jet in the world.

Remember the 5,230 gallons uel you need to fly the Gulf- am III across the Atlantic? The llenger will make the same trip 4,055 gallons.

Overall, the Canadair Chal- ger averages a 22% lower rate uel consumption per mile than ulfstream III, ually the me rate of fuel consump- n per mile as the far smaller con 50 and, hard as it may be believe, a 3% lower rate of fuel sumption per mile than the , short-range Falcon 20F.

Yet the Challenger is bigger n all of them in the one dimension most critical to passenger comfort and a realistic working environment: width.

Measured at the floor line, both the Canadair Challenger and the bigger, even longer-range Canadair Challenger E are roughly 30% wider than the Gulfstream III, and 48% wider than the Falcon 50.

And speaking of range.

The IFR range of the Canadair Challenger makes it one of the few corporate jets in existence that can cross the Pacific with one stop.

Or fly from New York to the Middle East with one stop.

Or fly from Honolulu to Denver non-stop.

Or from Washington to London non-stop.

For the first time in history, private intercontinental business travel is a practical, economical reality.

We're sorry it took so long.

For more information on the Challenger, call James B. Taylor, President of Canadair Inc. at (203) 226-1581. Or write Canadair Inc., 274 Riverside Avenue, Westport, CT 06880.

canadair challenger

the first target. But the acquisition attempt failed abysmally. CBI wasn't willing to pay a high enough premium. "We grew a little through acquisition, but we weren't very successful at it," volunteers Freeman, who retired at the end of 1980. But once again, their touch in the market saved them: CBI retains an investment in Rowan, which cost $989,000 and is now worth $5.5 million.

Where does CBI get the money to keep Mitchell, new Finance Vice President John Jones and a full-time staff of three busy managing a growing portfolio? From what Mitchell calls "the old bridge business." In 1889, CBI began building bridges. When that slowed in the 1920s, they built water towers and fabricated metal structures for utilities. But while CBI is a major supplier to capital-intensive industry, it is not itself capital-intensive. It has a current backlog of $1.7 billion, works on huge projects for such as Fluor, Bechtel and Exxon, but bills them every month or so. Once a project is going full steam, it starts throwing off excess cash.

Unlike just about every other major industrial equipment or construction company, CBI charges a fixed rate for its work. "Usually that's high risk, but not for CBI," comments one analyst, adding, "they estimate labor and materials better than anyone, and they earn a premium because they're good—on time and high quality."

Their accounting is still conservative. CBI waits to report the profit on a project until the contract is closed out, be it a series of oil storage tanks in Texas or an entire ethane plant in Saudi Arabia. That means the $682 million in revenues and the $57.2 million in operating profit that CBI reported last year was from projects begun as much as ten years ago. CBI doesn't use the word revenues; its annual report lists only "contracts closed." Those are the annual revenues.

CBI's business has grown steadily in the last decade, but in recent years the backlog has been growing at a faster clip—16% in 1980—thanks to the boom in oil-related construction. Which should mean that future reports will reflect increased growth. That's right, confirms Mitchell: "Of the $1.7 billion backlog, we've finished about $1 billion of work. So we've received progress payments on that $1 billion."

That also means there is a stream of earnings already in the till, but not on the income statement. "CBI won't surprise you with losses," says one investment adviser who follows the company, "they'll surprise you with profits." Sure enough. Mitchell, a man who seems to enjoy these things hugely, walks a visitor through CBI's balance sheet explaining the "accumulated costs" and "progress billings." "Since no customer is going to let you bill him ahead of your progress on the job, then, to us, the difference between costs and progress billings is an asset. It means, really, unrecognized profit," explains Mitchell. So there is $132 million in gross profit, already received by the company but listed in the balance sheet as a liability.

Why are those profits listed as a liability? "They shouldn't be," Mitchell replies. "Every year I have an argument with Arthur Andersen about that. They consider progress billings as an advance made by the customer, that for which we'll have to provide the work. That's why the accountants consider them a liability. But we've already come up with the products and services, or the customer wouldn't have paid us for it." You can't knock the logic in that.

So CBI lists the money the way Arthur Andersen says and Marvin Mitchell goes on hatching ideas on how to invest $132 million, working in his comfortable Oak Brook, Ill. office (the bookcase offers investment textbooks and golf trophies).

In 1979, Mitchell, once again acting on his intimate knowledge of the oil bus ness, decided the time was ripe to grab chunk of oil exploration dollars. Buildir refinery equipment is good business, bu the drilling end of the oil industry better right now. "We're just like bees t honey. We decided to go toward whe the spending was," says Mitchell, wh retires at the end of this year, probably t be replaced by President William A Pogue. So CBI bought New Orlean based Circle Bar Drilling Co. for $20 mi lion in cash and stock, assuming $3 million of its debt. Circle Bar has yet t make a profit, having suffered fire an hurricane damage in 1980 to two of i seven drilling barges. Soon Mitchell e pects to merge it with Tulsa-based Int grated Drilling and Exploration, givir primarily offshore Circle Bar a bigg land-drilling capability.

Mitchell isn't worrying. "Circle B made $2.7 million pretax in 1979, ar lost $3.1 million pretax last year becau of those damages. But we're not hurtir for business." Nor for hidden value. ■

Cars are getting older, and there's no longer a gasoline station on every corner. Who'll cash in on the auto repair boom?

"The mechanic will see you now"

By Alyssa A. Lappen

Nowadays, it's harder to see a good auto mechanic than to get an appointment with a physician. The reason is obvious: Americans drive 130 million cars and light trucks, up some 30 million since 1970. The average age of those vehicles is also up—to seven years. But while the car population has grown and aged, the number of car fixers has fallen sharply. At least 56,000 service stations and new car dealers have closed their doors in the last decade.

All of this may give motorists a headache, but it spells big profits for nearly everyone already established in the business. Last year mechanics wrote $70 billion worth of retail repair and parts bills, and that figure could easily top $110 billion by 1985. More important, the ongoing shakeout among gasoline and auto marketers means that fewer people a writing those bills and collecting th handsome profits provided by the s called auto aftermarket.

There is an enormous opportunity i the retail end of the business. America 115,000 service stations that do repa work—the small garage owners and ind pendent dealers who came through th shakeout of the Seventies—will cash i along with specialty shops, mass me chants and tire dealers, among other Says an industry analyst: "When yo auto is under warranty, you go to th new car dealer for repairs. But when it three, four or five years old, it's cheap and smarter to go to the neighborhoo mechanic."

A garage owner in a wealthy Detro suburb, for example, has only five servic bays and six employees. He works 6 hours a week, and business is so goo

©Eastman Kodak Company, 1981

"Good news, J.B.! I think this will solve our copier collating problems!"

For some copiers, you really do need rollerskates: Load here. Keyboard there. Dash around to pull out copies. Run back for the originals.

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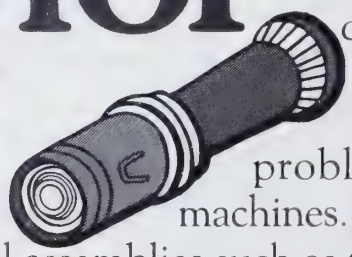
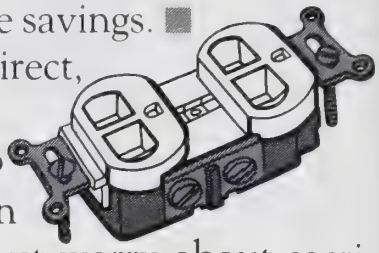
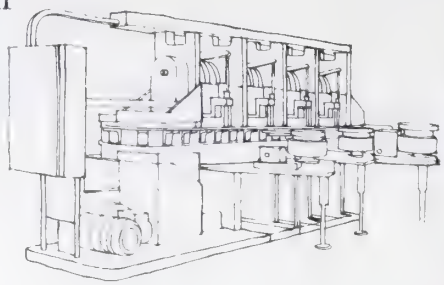
Kodak Ektaprint 150AF copier-duplicator

The machine that pays for itself



When you're in the business of assembling parts, you're in the business of holding costs down while keeping quality up. Which is a tricky business these days. Manufacturers have found the answer to the problem. Bodine in-line assembly machines. ■ Bodine modular machines have produced millions of small assemblies such as those shown here, products made in high volume to rigid specifications and yet at considerable savings. ■ With today's skyrocketing labor costs, both direct and indirect, managers hardly have to be persuaded of the wage-saving advantages of automated assembly systems. But they also must look hard at the possibility of long delays in changing over to new equipment, and they must worry about sacrificing quality control in their products. ■ Conversion even from a completely manual operation can be made swiftly and with a minimum of de-bugging time. ■ As for quality control, the simplicity of the Bodine drive system eliminates much of the need for monitoring and adjustment. Most of the motions of the system are timed and driven by the main drive shaft, and these include self-inspection features that keep constant tabs on output. ■ All of this adds up to higher production rates, fewer returns, and the elimination of costly major retooling for product changes. Which means savings added to savings. A Bodine assembly machine pays for itself. And then it starts to pay for itself all over again. ■ Write or phone Frank J. Riley, Vice President, The Bodine Corporation, 317 Mountain Grove Street, Bridgeport, Conn. 06605, (203) 334-3107.





Bodine
ASSEMBLY SYSTEMS

estone dealer Joseph DePaolis in 1 of his 22 shops

ıen you can't sell tires, fix cars.

at he hasn't taken on any new custom- ; in two years. He sells no gasoline and tted $70,000—20% pretax—last year. Ve could expand, of course," he says. ut I don't think I can manage a bigger siness."

Such size limitations, and the need for nds-on management, traditionally ade fixing cars a decentralized indus- . As with a restaurant, a garage runs st when the owner is on the scene; and e repair business requires the sort of ick, on-the-spot decision-making that esn't fit the corporate mold. "You ed a personal touch between the man ing the work and the customer," ex- ains a veteran mechanic. "When you nchise or put it under absentee owner- ip, it's like a Kentucky Fried Chicken. ıu take away quality."

Providing that personal touch isn't easy. Charles Lobosco, an independent Shell dealer in Greenwich, nn., regularly puts in nine hours a day, days a week. He works side by side th his two mechanics and deals with customer complaints personally. "Ga- ges have two sources of profits—parts d labor," says Jack Creamer, president Distribution Marketing Services of rien, Conn. Markups vary, but 60% labor and 40% on parts are typical. So operation like Lobosco's can net 0,000 to $80,000 a year pretax.

Others do even better. Joseph DePaolis ads Johnny Antonelli Firestone in chester, N.Y. and grosses $10 million ear on his 22 shops. "Everyone knows ıt car repairs are twice as profitable as ling tires," he explains. Over the ars, in fact, DePaolis has become more mechanic and less a retailer. Service counted for just over 25% of his retail venues in 1975. Now it's nearly half, d he hopes the proportion will rise.

In the good old days a little knowledge and a good wrench were enough to handle most simple auto repairs. A man with a touch of entrepreneurial drive could learn the basics working for someone else and then start his own garage. Not so today. In an age of solid-state ignitions and catalytic converters, setting up a garage costs big bucks. To buy an empty gasoline station at a busy suburban intersection, for example, costs around $150,000. Just one electronic engine analyzer can go for as much as $20,000. Mechanics' salaries? They can easily top $25,000 per year.

That's why you can't find anyone to fix your car. Being a grease monkey is a capital-intensive business.

Big corporations, of course, see the growing demand for car care—but the management headaches that go with repair shops mean they will enter the field in only limited ways. Oil companies and tire companies, for example, have always franchised most of their retail dealerships. Now, despite the shrinking size of these distribution networks, they are gearing up major programs to help franchisees build up their service.

What's in that for the likes of Texaco and Goodyear? Repair income helps a franchisee offset declining sales of gasoline or tires. Beyond that, there are corporate opportunities in the parts business—including items like spark plugs, oil filters, tune-up kits—which racks up an estimated $15 billion at wholesale. "Tire and oil companies move parts through distribution patterns, and that can become a profit center," explains Creamer. "They can buy from the manufacturers and resell directly to their dealers."

Among the oil companies, Shell leads the pack and now has 2,000 Auto Care centers in 40 markets. Amoco, Gulf, Texaco and Union Oil have followed suit and more competition is coming. Franchise programs are similar: For perhaps a $2,500 initial fee and monthly royalty payments, dealers can display a special repair logo to benefit from national advertising. In turn, they must provide certified mechanics, offer a few basic services and give written estimates and guarantees.

Tire manufacturers are expanding their repair activities too. "We're taking a much more aggressive attitude," says Robert Bowen, Firestone's group vice president for sales and marketing operations. His company has issued 2 million credit cards and signed up 20,000 motorists for a new auto club. The service business already provides 35% of revenues at Goodyear's company-owned stores and volume is expected to double over the next five years.

Other entrepreneurs think there are opportunities for outsiders to enter the auto repair business. Milex of America, for example, has 42 franchised car-care centers, primarily in New York and Chicago. Most of the company's owners run Milex stores. "We have some guys who stick their heads underneath car hoods on weekdays and fly their own private planes on weekends," says Milex executive director Frank Bloom. Pretax income from a Milex franchise, he adds, can top $160,000 a year.

Then there are the specialty repair chains, such as IC Industries' Midas muffler business, many of which are also expanding. Andy Granatelli, the former race car driver who headed STP Corp. for nine years, sees potential wealth in tuning up aging engines. His Tuneup Masters, Inc. is a 230-store chain that offers a $49.95 tune-up with a six-month guarantee. Granatelli hopes to operate nationwide soon. One major problem, he claims, is holding him back: finding and financing the real estate.

Despite such enthusiasm—and auto-age demographics that bode well for the industry—the car-care business has already been a wrenching experience for some companies. Over the past three years, for example, Tenneco spent around $30 million to develop over 100 Speedy Muffler King outlets to sell shock absorbers and mufflers made by its Monroe and Walker divisions. While results are improving, Tenneco's shops are still losing money.

For the immediate future, then, expect waiting lines to get longer every time you take your car in for repairs. Much of the service business today is too demanding for corporations to manage and too capital-intensive for aspiring small businessmen to enter. Eventually, a genius like McDonald's founder Ray Kroc will see a way around that dilemma—and make a fortune. Meanwhile, if you know a good mechanic. . . . ■

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"Sure it's simple," says Safety-Kleen President Don Brinckman of his company's humble product. Simple like razors or hamburgers.

The little red washtub

Don Brinckman at a Safety-Kleen recycling plant
"Four drums to us is a gigantic customer."

By Steven Flax

EXCEPT FOR CLEANING toilets, there's probably no more obnoxious job on the plant floor than washing greasy parts. It's a dirty, thankless necessity. It also happens to be a gold mine for Safety-Kleen Corp., of Elgin, Ill. By leasing machines that are little more than small red washtubs mounted on barrels, the company has been cleaning up by cleaning up machinery.

In the last 12 years, Safety-Kleen's sales have grown from $50,000 a year to $122 million in the latest 12 months, virtually all of that internally generated. Since 1976 earnings have grown at an average annual rate of almost 30%, reaching a record $9.4 million for the last four quarters. That translates into a 29% return on equity. Not surprisingly, Safety-Kleen's shares now trade over-the-counter at 27, giving it a robust P/E of 17.

Mechanics and millwrights had been cleaning dirty parts for years before Safety-Kleen came along. Usually they would fill a bucket with naphtha or kerosene, take it over to a sink or hunker down on the floor and scrub the part in the bucket with a stiff-bristled brush or rag. Then they would either pour the solvent down the drain or, if they were really lazy, just stow the bucket and rag under their workbench so they wouldn't have to refill it with clean solution for the next job. Cleaning parts this way—still a practice in gas stations, auto dealerships, machine shops and industrial maintenance facilities—is dirty, inefficient, smelly, slow, anything but thorough, wasteful and, especially, dangerous, because th solvents are highly flammable.

Safety-Kleen's answer to this prob lem—its circulating parts cleaner—is s simple that it's hard to believe that successful company could be based upo it. Invented in 1956 by one Ben Palme who worked in a gravel pit, the circulat ing cleaner is nothing more than a wash tub on top of a barrel of solvent. Flip switch and a little electric pump sub merged in the barrel sends a stream o solvent over the part to be washed. Th used solvent flows through a drain and filter bag, which catch debris, and bac into the barrel, ready for the next clean ing job and safely shielded from weldin sparks, cigarettes, anything incendiar Should the solvent ignite somehow dur ing a cleaning, a little link holding up th hinged back of the wash basin melts, th back slams down like a lid, cuts off th air and puts out the fire. Safety-Kleen ha a more sophisticated immersion cleane that rotates parts automatically but, i an era of CAT scanners and lasers, Safe ty-Kleen's products are strictly stone age. "Sure it's simple," admits Safety Kleen President Donald W. Brinckma with a grin, "but what could be simple than a hamburger, and look wha McDonald's did with *that*."

Actually, Brinckman himself was no impressed by the parts cleaners, or th company that made them, at first. Tha was in 1968 when Brinckman was hea of the replacement division of Chicag Rawhide, then a 90-year-old, $55 millio company owned by four families. Orig nally a producer of buggy whips and ha nesses, it then made mechanical o seals, washers and gaskets out of syn thetic rubber for the auto industry. Bu Rawhide's OEM business was stagnatin and its order-delivery was like a contin ual Chinese fire drill. Both Brinckma and Russ Gwillim, Rawhide's chief ex ecutive, knew that they had to develo the company's replacement business c watch the whole thing grind to a hal "We wanted to build on the replacemer business because the margins were s much more attractive," says Brinckma an affable, round-faced man of 50. "So w were looking for small acquisitions."

Rawhide's merger broker at the time, former NBC weatherman named Clin Youle, told Brinckman that the compan he had discovered, Safety-Kleen, wa promising even though it was spendin $100,000 a year to make $50,000 in sale Brinckman was highly skeptical bu agreed to drive up to Milwaukee to se Safety-Kleen anyway.

Brinckman soon realized that Safet Kleen's regular solvent replacement b service reps would give Rawhide the o portunity to sell its oil seals directly t the aftermarket rather than through di tributors. So he went to talk to a few Safety-Kleen's customers. "We talked t

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A car with an engineering concept basically sound, it has not merely rvived difficult times, but has pros- ered in them.

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It is, therefore, small wonder that comparing this car—even to its im- ressive BMW predecessors—Car and river magazine said of the 633CSi, ..You lift your driving to its standards. ecause it is tighter, sharper, more nmediate—and faster in every way."

Indeed, the sole disheartening aspect of the 1981 BMW 633CSi is that, this year, our engineers will produce a mere 900 for the entire continent of North America.

THE BMW POWER PLANT: AN AUTOMOTIVE PARADOX.

In 1975, at a time when the rest of the automotive community seemed forever committed to the carburetor, BMW abandoned it totally, in favor of a computerized fuel injection system.

A replacement of such consequence, it resulted in an apparent mechanical contradiction—an engine which not only performed with more power but with more efficiency as well.

A 6-cylinder engine that generates nearly one horsepower per cubic inch —a ratio almost unheard of in road cars—accelerating the 633CSi even faster than certain coupes equipped with larger, V-8 engines.

LUXURY THAT GOES DEEPER THAN SURFACE AMENITIES.

Even while the BMW 633CSi is a car which embodies all of the amenities, all of the creature comforts one expects in a superlative European automobile—even while it is a car honed and polished to the absolute limits of human finesse—one noted automotive journalist nevertheless insists "...The real beauty of this car is under the sheet metal, hidden in corners that will probably be explored only by your mechanic."

A suspension system considered to be one of the most advanced in the world provides a seemingly magnetic road-holding ability. Even when buffeted by crosswinds, the 633CSi remains comfortingly stable.

A 5-speed manual transmission (inexplicably absent in most other "luxury sport coupes") allows the exhilaration of working in total concert with the car itself. And provides increased highway fuel efficiency as well.* (Automatic is, of course, available.)

The seats of the 633CSi are anatomically correct buckets, covered in wide rolls of supple leather.

AM/FM stereo cassette, electric sunroof, electric windows, electric side-view mirror—even a central locking system that locks both doors, the trunk lid and the gas door with the turn of a single key—are all standard equipment in the BMW 633CSi.

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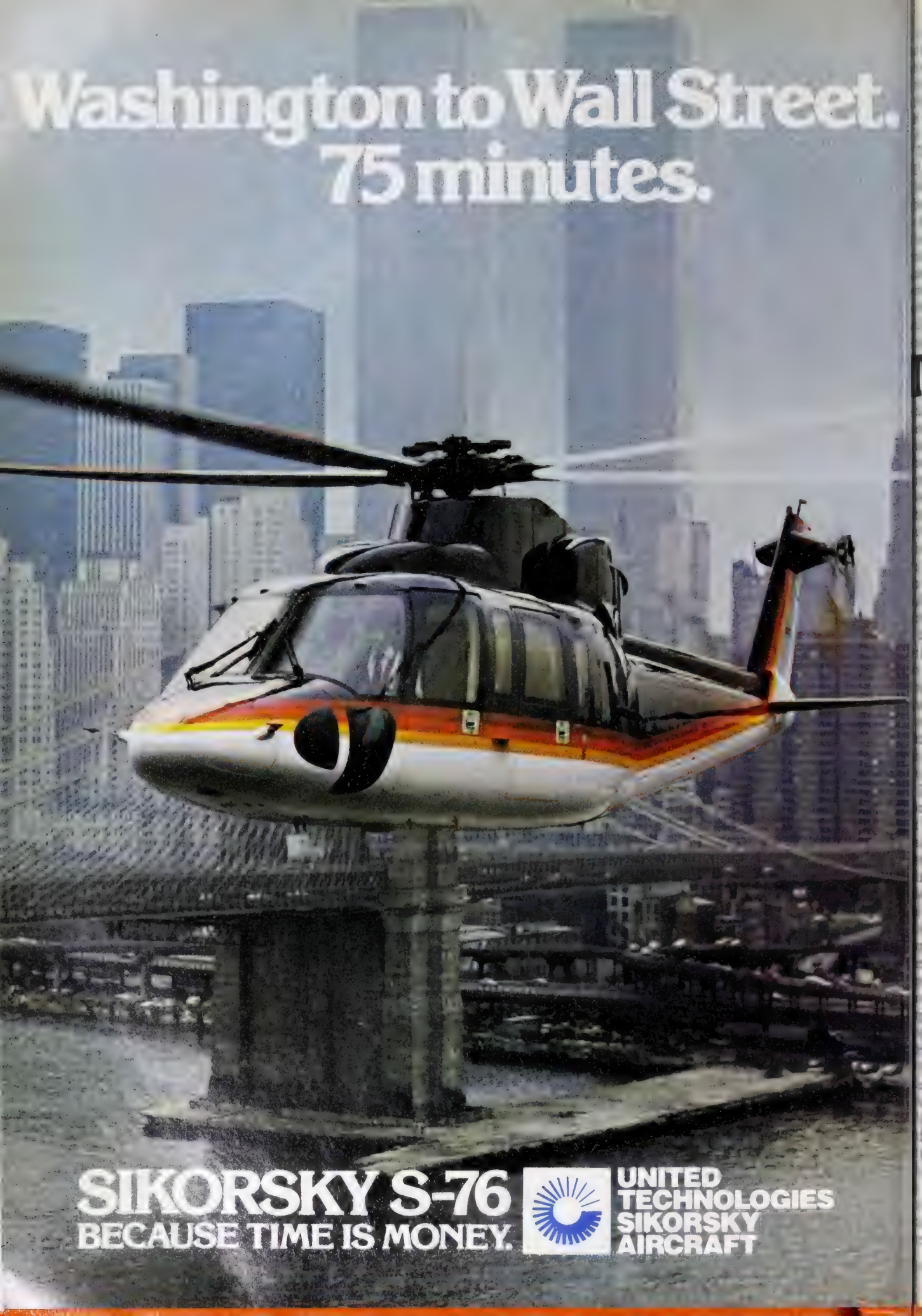
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ouple of service stations, a couple of dealerships, and they were really en-asiastic about the service," says nckman. "I thought, if those 500 cus-ners are, . . . their needs are no differ-t than anybody else's in the U.S. Why t take it across the country?"

The deal was made in October 1968 for 5,000 in cash and the assumption of 50,000 in debt. (Royalties on the ma-nes would later add another $90,000 the cost.) Then, fully aware that the a was incredibly easy to imitate, nckman and a small team of sales nagers blitzed the auto aftermarket oss the country. "That was our mis-nary force," says Brinckman. "We lit-lly laid out 130 little Milwaukee terri-ies across the country by zip code."

To say they were aggressive would be an understatement. They set up service centers anywhere they ıld find empty storage tanks for sol-ıt. They used temporary help—ser-emen on leave, tap dancers between ows, guys in Nehru jackets and cash-re coats, anyone willing to jockey shing barrels of solvent for grimy ma-nes. When one sales manager found it would take six weeks to install a one in his Cardiff, Wales service cen-he demanded quicker service from Prime Minister of Britain, who, he l discovered, was the M.P. for that trict. He promptly got the phone.

nitially they placed the machines out a free trial basis, living on loans from Northern Trust Co. funnelled ough Rawhide. Subsequently they nd that over 90% of the customers re willing to pay for the service. "It med that we had come across one of most marketable products ever de-oped," says Brinckman.

Once Safety-Kleen had set up its na-nwide network of routes, it inaugurat-a "customer-owned machine ser-e," delivering and disposing of solvent m those customers who used parts-aners made by other manufacturers. It used the regular service schedule to more than oil seals. Today Safety-en sells oil filters, cleaning brushes, er blades, even hand cleaners. As nckman sees it, Safety-Kleen service s can sell virtually any aftermarket duct they care to, completely side-pping the whole multitiered distribu-n channel of warehouse distributors, bers and dealers.

ut as the business grew, so did Safety-en's problem of disposing of the used vent. Around 1970, virgin solvent, at cents a gallon, was cheaper than recy-l solvent. So when someone suggest-to Brinckman that he consider recy-ıg, he wisecracked, "Sure, as soon as finish building our pipeline." With of little branches all over the U.S. king pickups averaging 7 gallons, it med preposterous to think of hauling

The Up-And-Comers

Mechanic using a Safety-Kleen parts cleaner
"Sure it's simple, but what could be simpler than a hamburger, and look what McDonald's did with that."

and redistilling the dirty solvent.

But if Brinckman failed to foresee the 1973 OPEC oil embargo, he did realize that disposal costs would inevitably climb to the point where recycling would become cheaper.

Just then, in 1970, Shell Oil, one of Safety-Kleen's major suppliers of solvent, offered to sell the company a small distribution facility located right in Elgin. As they had decided to close the facility anyway, Shell offered to give it to the company for just the value of the land: $15,000. "My God," thought Brinckman, "here's our solvent supplier selling us our first recycling plant." Says Brinckman, "That was a good way to get into recycling very cheaply. I think we added about $70,000 to $80,000 in recycling equipment and got started. Then came the embargo in 1973." At that point Safety-Kleen had three recycling centers and a fourth under construction all because of anticipated disposal cost increases. Overnight, recycled solvent became considerably cheaper than virgin solvent. "We were in a *very* nice position," says Brinckman.

Today, with six recycling centers in operation, Safety-Kleen recovers 92% of each gallon of dirty solvent for reuse, enabling the company to save the equivalent of 550,000 barrels of crude oil a year—or $20 million a year at current prices. Even with their parts-cleaning business growing at 20%-plus a year, the company needs to purchase new solvent amounting to only one-third the volume of its deliveries.

Despite the many thousands of auto dealerships and service stations closed last year, Safety-Kleen now services 325,000 parts-cleaning machines worldwide, a net gain of approximately 24,000. Based on EPA estimates, the company has a 30% share of auto-parts cleaners and a 13% share of the market for industrial and other parts cleaning, where Brinckman expects his greatest growth.

Since the passage of the Resource Conservation and Recovery Act, however, a lot of big guns like Foremost-McKesson are jumping into the recycling business. Does that worry Brinckman? Not a bit. "We have the technology of handling small quantities . . . that's an art," he replies. "Anybody can handle big quantities. It's easy to drive a tanker and pick up 6,000 gallons. Our out-of-pocket costs on recycling are very low. We get the two-, three- and four-drum industrial company and make a profit, because four drums to us is a gigantic customer. There are literally thousands and thousands of [small] industrial companies that use solvents where we won't encounter the kind of competition you're going to get in the big quantity sales."

Brinckman also has a few aces up his sleeve. One is a little company Safety-Kleen acquired last year called American Impacts Corp., which leases buffing pads to the painting and refinishing aftermarket. Just as with the parts cleaners, Safety-Kleen recycles the pads, washing them and fluffing them dry before returning them to the customers as part of a regular service. And, while those service representatives are making their call to pick up the used pads, they're selling allied products like abrasives, polishes and cleaners.

Another project Safety-Kleen has been working on is a cleaning service for restaurant exhaust filters. While the service reps are in the kitchen replacing greasy filters with clean ones, they're going to be selling a variety of cleaning and sanitary products. And Safety-Kleen, which was spun off to Rawhide shareholders in 1974 and went public in 1979, is pursuing this scheme with the same aggressiveness they pursued the auto parts aftermarket. Says Ray Lipsch, the director of sales for the restaurant service division, "If a little old lady waits for a bus too long, she's going to find herself with six filters!"

Not that everything has worked out well for Safety-Kleen. The German subsidiary has been a big loser for years and was finally sold to a management team of German nationals last month. But all things considered, Safety-Kleen has got itself a very neat little mousetrap, very much like the one King Gillette had with razors and blades. The only difference is that it took Gillette several generations to diversify, while Safety-Kleen has expanded its clever parts-cleaning formula into other profitable businesses in a scant 12 years. ■

Aztec Manufacturing's L.C. Martin

Aztec Manufacturing makes no finished product in the oil business. Cautious L.C. Martin prefers to stick with processes and market niches no one else can be bothered with.

"Close to the vest"

By Phyllis Berman

BACK IN 1971, the U.S.' working oil rig count was about to hit its alltime low; cheap Arab oil was pouring in, and the Texas oil drilling business was in a blue funk. Yet, in February of that year, L.C. Martin, president and CEO of tiny Aztec Manufacturing Co. of Crowley, Tex., wrote in his annual report: "The U.S. faces an energy crisis . . . a potentially serious gap between demand for petroleum and the diminishing level of secure, proven reserves." Sooner or later, he said, domestic drilling would boom, and with it demand for Aztec's oilfield tubing finishing business.

A cliché today. But in 1971 that was pretty original thinking—and, of course, Martin was dead right on both counts. These days the U.S. rig count, at over 3,600, is nearly quadruple the 1971 level, and Aztec has averaged aftertax margins of 14.8% and a 46% return on shareholders' equity over the last five years. All that, too, on leverage you'd hardly notice: practically no short-term debt and long-term debt that's a scant 11% of total capitalization.

So once-tiny Aztec is tiny no more, right? Wrong. Aztec's total sales for tl fiscal year ended this February were on $39.4 million. Despite a business strat gy that shrewdly concentrates on pr cessing other people's inventory, whi it doesn't have to finance, Aztec Man facturing is still merely a small cactus the oil patch.

About the only big mistake L.C. Ma tin has made in his 25 years at Aztec w in 1956 when, as a 29-year-old enginee he left a secure job with the Welex div sion of Halliburton to join four entrepr neurs in a new oilfield pump-producir venture. Like Martin himself, all fo founders were executives from major o field service companies, hoping to ca in on the boom in drilling then at nea record levels.

So highly did Martin think of the ve ture that he kicked in his life savings $5,000 in return for 5,000 shares of stoc and the position of chief engineer. Wit in months Aztec looked like an unqua fied disaster. "None of us realized what profound effect the 1954 Supreme Cou decision to control natural gas at tl wellhead would have on our market," h recalls. "The year before we went in business, 35,000 pumping units we sold. A year after, it was down to 14,00 or so, and we were just about broke."

What saved the company was a sid line Aztec had started to pursue as a wa to pay the bills while tooling up to pr duce pumps. That business was finishir

lfield tubing. In the finishing process, bing ends are heated in a furnace, then ıt into a forging machine called an "up-tter," which forces the ends of the pipe ıck on themselves. Though the interior ameter of the pipe is unchanged, the ickness at each end of a length of tub-g is increased. That makes the pipe ronger at the connecting points.

As it happened, in the mid-1950s umble Oil & Refining, now Exxon, had me up with a technique to tap oil and s from more than one layer of ground rough the same wellhead, sucking the oduct out through thin tubing called nacaroni." Here Martin and his col-agues saw opportunity. While steel ills were willing to produce this narrow bing, they weren't interested in adding pacity to finish the ends of this small-width macaroni tubing as they did ith standard-width tubing. Why should ey? Drilling looked to be a declining siness.

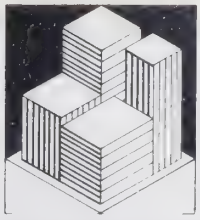
But macaroni turned out to be the one ea of drilling that did not suffer in the suing 16-year lull. "While the need for e 'plain vanilla' tubing—the 2⅜-diam-er stuff—dropped off, our 2¹/₁₆-inch ultiple-well completion tubing kept owing," says Martin, chuckling.

Better still, even when drilling picked up, others didn't invade this profitable preserve. Aztec's arket acceptance was already too ong. Though there are a couple of oth- independent nonsteel-mill finishers, ere is a strong tendency in the high-akes oil industry to buy from proven ppliers. "When you're spending up to 0 million to drill a well, you don't take ances on what you put down that ell," says Martin.

In 1959 the company went public, and 1963 Aztec was doing well enough to ink about diversification. The next ar, Martin took over as chief execu-e; three of the founders had already d out, and the fourth had died. Re-embering Aztec's traumatic beginning, artin decided to play it safe when ying the assets of an Oklahoma com-ny in the highway sign business. Rath-than borrowing the $65,000 required, suspended cash dividends for two ars and financed the deal internally.

History repeated itself. While the sign siness eventually proved disappoint-g, he managed to keep another hand-me by-product business. Highway ns themselves, says Martin, "are very, ry competitive, and I don't like com-titive businesses." But when Aztec iled out in 1975, Martin kept the real vel: a galvanizing process.

Today that relatively simple process of ating metal with a zinc preservative ovides 15.9% of Aztec's sales and



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16.9% of operating income—in other words, it's slightly more profitable than oilfield services itself.

Like Aztec's pipe business, galvanizing is a simple value-added process. The company does not make any of the products that it treats. Its only major inventory item is the zinc. Spurred by the continuing rise in steel prices, fabricators of everything from hand-held accessories to utility poles are turning to Aztec to help preserve their products for up to 50 years.

Meanwhile, Martin's prediction of 1971 that drilling would soon boom started to come true. Encouraged by an upswing in 1972, Martin broke his long-standing rule against taking on bank debt and borrowed $1 million to build a new tubing plant. It made him so uncomfortable that the next year he negotiated a 20-year, $1 million loan on his real estate and buildings to clear that bank borrowing off his books.

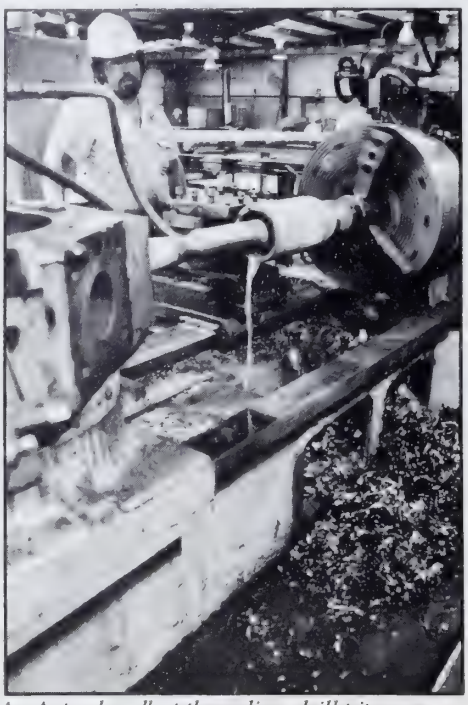
No sooner had he done that than the 1973-74 oil embargo struck, and drilling took off with it. Martin knew that if he were to keep a lock on his market he would have to expand. The rig count was climbing steadily toward 2,000, and that figure, he explains, is a key one: Domestic steel mills processed about 75% of their large-diameter tube business in-house. "But when it gets above 2,000," he says, "we get the rest of that large-diameter tube business from the mills—as well as the finishing of our usual $2\frac{1}{16}$-inch stuff."

So Martin screwed up his courage and went back to the banks for $2 million to expand his capacity. He was just in time. By the end of 1977, total working rigs had reached 2,002 and climbing, and Aztec was flooded with volume. Employment doubled in one year. Customers loaded so much tubing into the Aztec processing plant that for a while it coudn't be handled by automatic cranes, which nearly tripled handling costs.

With his new upsetters coming on stream, however, it took Martin little more than a year to digest that new business. Now he had a chance to branch out from tubing. The obvious next step was into drill pipe. Here, too, Aztec would not have to finance large inventories. Because drill pipe carries drilling mud to the bit, it's constantly subjected to the rotary motion of the drill. So the sleeves, or "joints," that connect the strings of drill pipe must be welded on in a totally reliable manner. Today the company holds only tool joints in its own inventory and other people's pipe is shipped to weld to those joints.

Unlike small-diameter macaroni, however, drill pipe was *not* an unnoticed field. Giant Hughes Tool and Reed Tool (now part of Baker International) were already well established in the market. But Martin spotted an uncrowded corner: rental. "New rig construction automatically got first call on industry capacity," he explains.

"Then there was replacement drill pipe," he goes on. "There the supply was based solely on historic relationships between suppliers and drill contractors. We weren't interested in either of these markets. What we wanted was the rental tool market. It had last call on welding capacity. It was a niche nobody wanted. So we jumped in and did it."



An Aztec hardhat threading drill pipe
"A niche nobody wanted."

At first that looked like a serious mistake. No sooner had he entered the market than drilling collapsed. In the uncertainty over whether and when the U.S. would begin its phased decontrol of oil prices, the rig count fell from a 1978 peak of 2,358 to 1,943 in April 1979. For the fiscal year ended February 1980 Aztec's earnings fell to $3.5 million from $4.2 million the year before on a 6% drop in revenues to $22.3 million.

But there's a certain countercyclicality between the finishing of tubing and rental drill pipe. Tubing is consumable. It is placed in a well and left there. More tubing must be ordered for each well completion. Drill pipe, on the other hand, is really a capital good. Each rig has a string of drill pipe that can be used over and over again. So while the demand for drill pipe stopped dead because of the 18% drop in drilling, the demand for tubing went down only moderately—and that only because many of the wells being completed were shallower, previously uneconomic ones.

So the tubing business helped to buffer the downturn in the drill pipe business. Once drilling started roaring full-bore again by mid-1979, Aztec never hac look back. "We haven't borrowed a p ny since that $2 million in 1977," s Martin, "and we could pay that loan tomorrow, we've got so much cash."

What next for little Aztec? " friends all know that the goa my life is for Aztec to re $100 million in sales by 1986," Ma says. So far, so good: Fiscal 1981 sales $34.9 million, a 77% rise over 19 while earnings were up 85% to $6.4 r lion. Martin figures he can even fina growth to $100 million in sales interna But he doesn't plan to indulge in any b strokes to get there. Take, for exampl planned finishing mill in Singapore. M tin has been worrying about that, on off, for close to five years, without go ahead. "It wasn't borrowing the mo that made me shy away from it," he sa "I just wasn't sure we'd have a sta source of product to work on. So didn't. . . . Maybe some people wo consider that a mistake. I think it's ju sign of my conservative philosophy."

Martin isn't so conservative about market projections, however. "I th we're probably going to be looking a rig count of 5,000 by 1985," he says. wells get deeper, by definition they'll quire premium tubing. Where the t tubing we now process is $3 per fo we're looking at alloys in the future t will cost $25 per foot. Somebody's got finish those, because generally the peo that roll those superalloys do not fin them." Martin has rarely been wro about such things.

Lately, Martin has even begun thi ing about delegating some authority. I not an easy step for him. Two years a he hired a headhunter who produced t executives who had spent their care with far larger, more bureaucratic orga zations. To put it mildly, they didn't s the tastes of L.C. Martin. They no lon work at Aztec.

"I've made up a list of qualification think we need," he says. "Maybe a la yer. Maybe another entrepreneur wh sold his business." But no one wh shake the boat too much. After all, Az has done all right, hasn't it? Marti own 6% of the company is worth $ million on paper. Isn't that enough?

It is for L.C. Martin, who sports American flag in his lapel and a big d mond ring on his pinkie. "I never rea wanted to be rich," he says. "Wha wanted was to work in a small-compa environment, and that's what I've g Sure, I drive a Cadillac now. So does r wife. But we live in the same house did 12 years ago. And how many time week can you go out to dinner?"

He is silent for a moment. "Y know," he says finally, "my philosop is to operate close to the vest. My phil ophy is that every day, after you pay yo overhead, you have a dollar left over."

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Others may be uncertain, but Baker International professes no doubt whatever about the future of the oilfield services business. It's betting $2 billion on it in the next five years.

"We really rolled the dice"

By Nick Galluccio

IF YOU LOOK at the length of Soviet versus U.S. supply lines, and the availability of bases for the Soviets versus the hostility toward and fear of U.S. bases in the area, you must conclude that there is no way we can truly defend the Middle East. We cannot fight the Soviet Union in the Middle East."

Is the speaker Alexander Haig? No, it's Chairman E.H. (Hubie) Clark of $1.5 billion (sales) Baker International Corp. who says that since we can't depend on the Middle East, we and friendly neighbors will have to redouble the search for our own oil. He's therefore investing $2 billion over the next five years in Baker's oilfield services business.

Clark delivered that chilling, but penetrating, global analysis to an industry conference in Denver last year. In March he announced Baker's five-year capital program, and he repeats the underlying analysis today: "We have mortgaged our security for cheap oil. Now we have to choose between lessening that dependence or being prepared to defend it with military force." He has no doubt which would be the best path.

Clark reckons that the search for petroleum reserves in the secure countries—the U.S., U.K., Canada, Mexico, Norway and the like—will not merely continue unabated but will intensify. The U.S. in particular will see more attempts to work over old wells to get out more of the oil left behind in initial production. Well spacings will be narrowed and new wells drilled in between the old—a process called in-field drilling. He points out that in Saudi Arabia it takes 61 oil wells to produce a flow of 1 million barrels a day, an estimated 6,000 wells for the same result in the U.S.S.R. But in the U.S., he says, it takes 58,630 wells* to produce 1 million barrels a day.

** Counting a huge number of "stripper" wells still working marginally productive fields in the U.S.*

Baker International's Hubie Clark
Global threat means great opportunity.

More wells mean more use of Baker's products—drill bits and tool joints, pump parts, water-treatment systems and workover equipment. More also is in prospect for such other oilfield service leaders as Hughes Tool, Dresser Industries, Halliburton Co. and Smith International, and they all have expansion plans. But none declare them with the global perspective of Clark, a brilliant 54-year-old graduate in mechanical engineering from the California Institute of Technology. Nor do many have his daring.

The $2 billion that Clark proposes to invest is almost 3 times Baker's current shareholders' equity, roughly double its total capital. But the company is growing so fast that James T. Dresher, chief financial officer, says more than 75% of the massive investment will be financed through cash flow. Baker's cash flow (net income plus depreciation) in the fiscal year that ended Sept. 30 was a shade over $200 million. This year, says Dresher, it should rise to $320 million.

If Clark's new investments work out, Baker stands to reach $5 billion in revenues by 1986, which is better than 3 times the $1.5 billion it took in in fiscal 1980. Those revenues in turn were nearly 3 times 1976's total of $553 million. Earnings have grown 30% a year for the last five years to $139 million, $2.1 share last year, and jumped 64% to cents a share in this fiscal year's fi quarter.

But, a caution. There are some exec tives in the booming oil services indu try who expect a slowdown in the hea long rush after oil and gas that is going today. Clark, basing his policy on a bel that OPEC will continue to hike pric and that crude oil could cost $90 a bar by 1985, disagrees.

Clark has gambled before. In 19 right after the revolution in Iran and t cutoff of its oil, he launched a $500 m lion, three-year capital expansion p gram—almost double the total amount investment in the company's entire year history. As a result, Baker increas its share of the $300 million domes tool joint (drill-pipe tube) market fr 25% to 35%. It also strengthened leadership in the downhole well comp tion equipment market, which consi of drilling lubricants and packers (m chanical plugs that control pressure in wells). Baker is also gaining market sha in drill bits, where the leaders are Hugh Tool and Smith International, and in t drilling fluids markets dominated Dresser and National Lead.

Clark points out that two-thirds of B ker's plant and equipment is less th two years old. "We really rolled t dice," says Clark, who joined Oran Calif.-based Baker in 1947 and has led since 1965.

The company, founded in 1913 by wildcatter Reuben C. Baker, was mai a maker of equipment used to control and gas production, doing $46 million revenues when Clark became chief ecutive. He moved it quickly into t drilling business by acquiring some companies, the biggest being Reed To Co., a maker of drill bits. Today drill bi fluids and related equipment account half of Baker's sales and profits. Oil a gas production and completion equ ment account for another 40%. The maining 10% comes from mining a industrial equipment.

Clark has made a lot of small acqui tions over the last eight years in mini equipment. About $200 million of his billion capital splurge in the next fi years will go toward Baker's coal, copp and iron ore mining equipment. And plans further and larger investments those businesses later in the 1980s wh he reckons the oil services boom w level off. It's simply a matter of tim Clark believes, before minerals becor scarcer and more costly. "Higher mine prices will create a boom in minin says Clark.

In other words, in a continually thre ening world, Hubie Clark figures that investments in natural resource recove can't miss. The world being what it he's been right so far. ■

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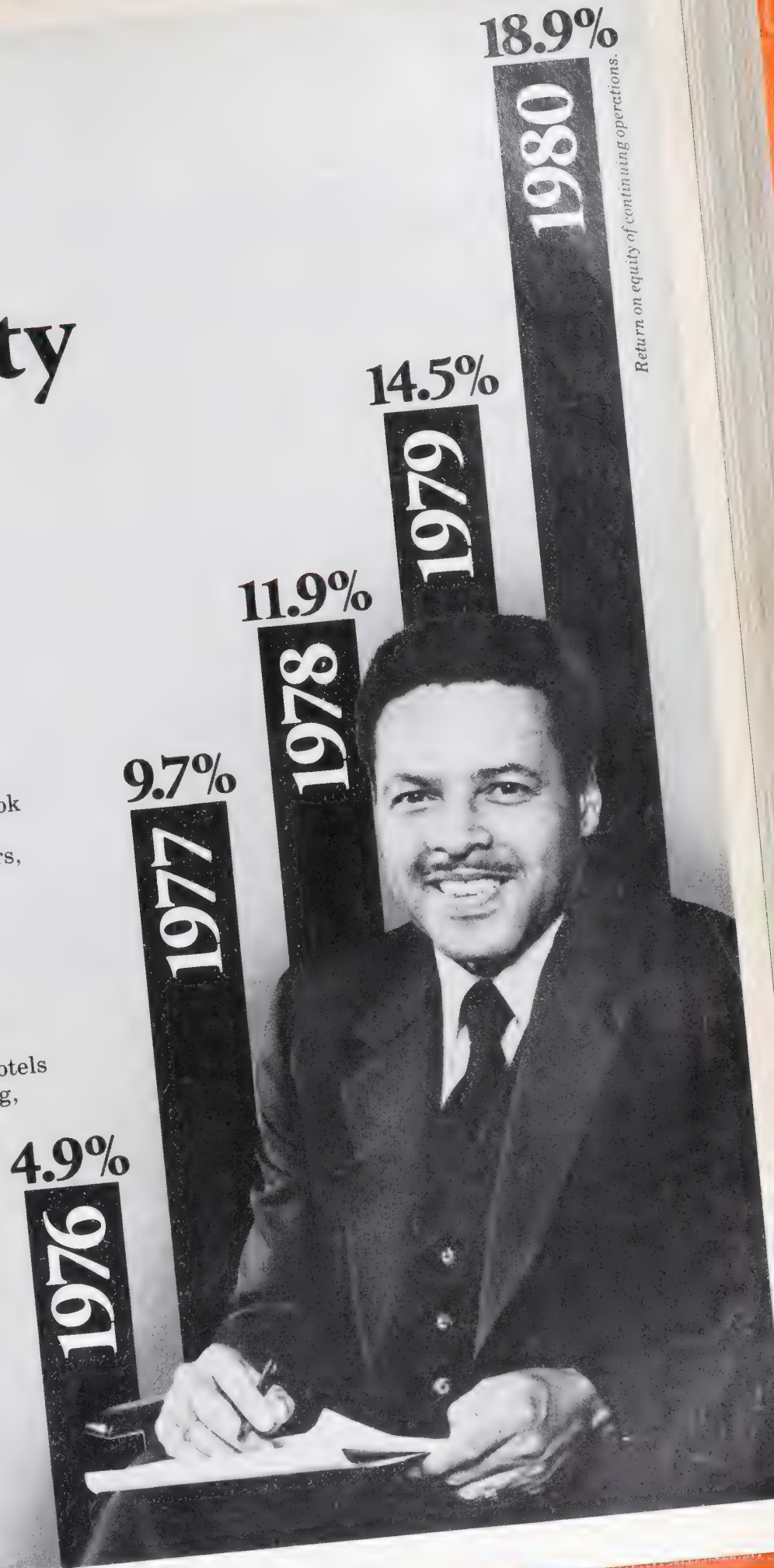

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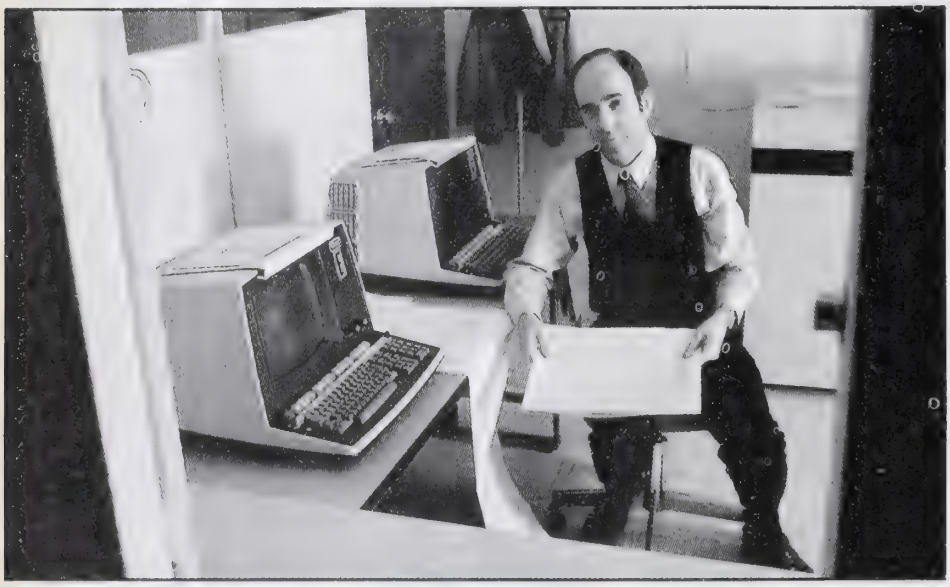
Mike Lipper manages $130 million using a straightforward, conservative strategy—quite a contrast to the go-go style of his brother Arthur.

The straight and narrow

A. Michael Lipper of Lipper Analytical Distributors
"Those who seek us out are no longer virgins."



By Thomas O'Donnell

REMEMBER ARTHUR LIPPER III? A former oriental art dealer, he founded his brokerage firm in 1967 and made big money by selling mutual fund performance data. His largest client was Fund of Funds, managed by Bernie Cornfeld's Investors Overseas Services. Lipper once facetiously proposed moving the New York Stock Exchange to an aircraft carrier outside the 3-mile limit to avoid New York taxes. In 1971, however, Lipper sailed into his own legal problems: The SEC charged him with returning commissions to an IOS subsidiary. He soon got out of the business and now manages his own money.

Michael Lipper is Arthur's younger brother, who bought the Lipper data bank in 1973 and set up Lipper Analytical Services. He later set up Lipper Analytical Distributors, a brokerage firm, to sell the data.

"Mike's about as straight an arrow as you can find," says a close associate. After some lean startup years, Lipper's business has grown dramatically. Today, besides selling statistical services, he manages $130 million and invests in an unusual way: He shuttles assets among 30 mutual funds that he tracks.

"No one can always pick winning individual stocks," says the 46-year-old ex-Marine officer, whose austere office is next to the American Stock Exchange. "Why should I beat my brains out competing with guys who spend their lives investing when I can work with them?"

Why indeed? Lipper's if-you-can't-beat-'em-join-'em philosophy is paying off. His largest fund, $60 million in assets, posted an impressive 33% gain (excluding dividends) last year, against 25% for the Standard & Poor's 500.

Lipper has always been a straight arrow. As a teenager, he asked his parents to transfer him from a progressive New York City prep school to Virginia's tough Staunton Military Academy. He then won an ROTC scholarship to Columbia, where he majored in both finance and

Middle Eastern history. "Studying Byzantine empire is the best possi preparation for working on Wall Stre says Lipper, not in jest. "Down here v few things are the way they seem. F people know the real players, the r rules or the real score."

Last year Lipper's two businesses t in more than $1 million—without hype and hustle that characterize mu of Wall Street. "We're lousy marketer he concedes. "We don't have so much a brochure." Lipper solicits no mor management business: "Those who s us out are no longer virgins. They been raped by self-proclaimed sto picking geniuses."

The first big chunk of money ca two years ago from PPG Corp. Toc Lipper's clients include pension and pr it-sharing plans and foundations. "T only thing we promise is that we're ing to be wrong some of the time," says. "Then we structure their portfol so they can survive such mistakes."

That strategy served Lipper's clie well during the first quarter. Such fur as Rowe Price New Era, Petroleum Resources and the Energy Fund—all which had benefited from investor int est in oil stocks—"got creamed." Ev so, the losses were offset by the perf mance of such funds as Windsor a Gemini, which hold cyclical stocks a thus do well in mature bull markets.

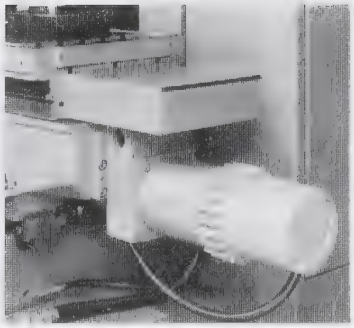
At the moment, Lipper is concern about the possibility of deflatic "Historically, we're due for it. Go back to biblical times, every period high inflation has been followed by def tion," he points out. "The decline short-term rates and the softening of ergy prices may be the start."

Clearly, Mike Lipper is a man w thinks of the big picture. He's also a m whose life revolves around the brokera business. Beyond his family, he has hobbies or outside interests. He is in h office by 8 a.m., following an hour's co mute from his New Jersey home. rarely leaves before 6 p.m., taking t hours of paperwork with him.

Lipper must work this hard to keep with the quickly changing world of W Street. If he is right about deflation, example, this much is certain: Inve ment strategies that have worked well recent years will be outdated. "Bon may soon be attractive," he says. "V may now be on the verge of the first b market in bonds in over a generation."

But until that day dawns, mutual fun will remain one of the best vehicles the average investor. "The typical b kerage house account has few issues a is poorly diversified," Lipper explai "It's too volatile, and over time a go fund will almost always do better." ■

Gould adds servos to its factory automation capability.



The acquisition of Gettys Manufacturing Company Inc., makers of precision industrial motion control products, adds another vital element to Gould's factory automation capability.

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Reserve recognition accounting seems to have fallen victim to fears of current value accounting. But the FASB's alternatives don't mean much in natural resource industries.

Retreat on RRA

Numbers Game

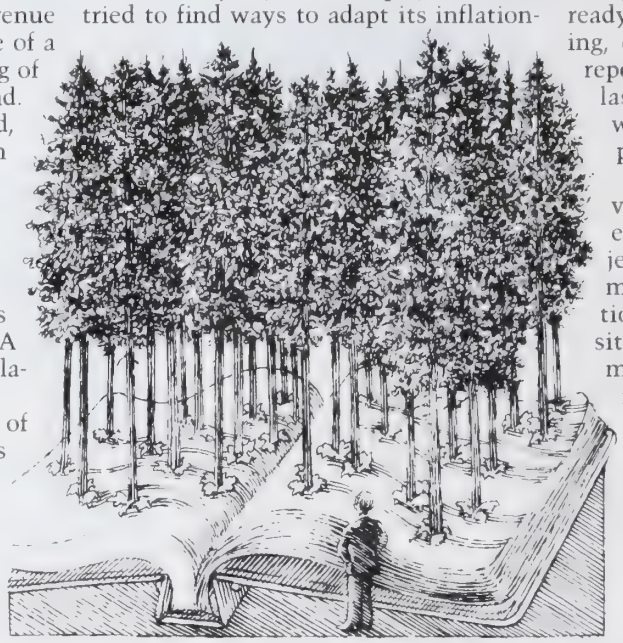
IN LATE FEBRUARY the Securities & Exchange Commission scuttled its plan to push for reserve recognition accounting (RRA) as the primary accounting method for oil and gas producers. It was not one of the SEC's prouder moments. RRA(*see* Numbers Game, *Sept. 29, 1980*) would have represented a major change: It would have redefined revenue as the difference between the value of a company's reserves at the beginning of a year and their value at year-end. Reported profits would have soared, compared with those calculated on the usual historical-cost basis.

Gulf, for example, in 1979 reported RRA earnings from oil and gas production of $12.7 billion, compared with $2.4 billion on primary financial statements. Though Gulf's tax bill wouldn't have increased, RRA figures would have been far more volatile than traditional earnings.

RRA, though, would have been of major benefit to investors. It forces disclosure of a great deal of supplemental information on how much oil and gas a company thinks it has and what prices it could get—the kind of information needed to make a good estimate of the market value of its assets.

For the time being, the SEC will still require the disclosure of that information. You will find it in your new 1980 annual reports, but perhaps not for much longer. The SEC is turning the question of oil company reporting back to the private-sector Financial Accounting Standards Board, whose inaction on that point was the reason the SEC first took the project over in 1979. There's little doubt that the question of estimating quantities of oil in the ground is a significant one. Still, it seems odd the SEC should decide that an estimate of zero—or no estimate at all—is more accurate than any scientifically ascertained figure, no matter how shaky. But that's the logic that seems to have persuaded the SEC and so, with the primary statements guaranteed sacrosanct, that leaves supplemental disclosure up to the FASB. Recent developments at the FASB, however, suggest that at least in the field of natural resources, the Board still can't see the forest for the trees.

Late last year, for example, the FASB tried to find ways to adapt its inflation-accounting system to natural-resource companies. The problems it had to deal with weren't hard to spot. Take forest products, for example. Boise Cascade Corp. values its timber and timberland on the books at around $289 million. Under current FASB guidelines, Boise adjusts that for inflation to $487 million, and then reports a current cost of just over $753 million. Both numbers are wildly understated, according to Morgan Stanley analyst Thomas Clephane, who estimates the market value of that timber to be over $1.7 billion—more than twice the higher of the two inflation measures. Why such a huge differen Simply put, the replacement cost of na ral resources—what it would cost grow the trees again, or to find the and gas—is only slightly related to th current worth, which is much higher.



Philip Peller, an Arthur Anders partner, was on the FASB's Forest Pr ucts Task Group, which recommende system based on market value of t timber. "Our feeling was that aski how much it would cost to plant yo trees again and bring them to the c rent state of maturity was not partic larly meaningful," he says. "It might theoretically supportable, but it's clea too low." In other words, a system th works fine for factories may not me much for a lot of other businesses. T Board also encountered protests from real estate advisory team, an indus where replacement cost figures are j as irrelevant, and where some com nies have been disclosing market-val data voluntarily for years.

It wasn't that marking up assets sharply on the balance sheet would quire a devastating increase in charges the profit and loss statements. The p centage of a forest products compan assets that are sold in any year is very lo The problem is that the FASB still is ready to embrace current value accou ing, even in an appendix to an ann report. In three statements issued l last year, the Board announced that would stick with its two current proaches, pending further study.

However, there is some hope. T votes on all three statements inclu ed dissent from Board members jecting to the Board's hesitancy move toward current value inform tion. In addition, the SEC, althou sitting on the sidelines, has pledged monitor the FASB with regard market-value disclosure for oil a gas producers.

What might eventually result something like what investors from mineral companies: estim ed prices and quantities brok down separately, leaving the inv tor to draw his own conclusio While that has all the drawbacks most do-it-yourself projects, would be at least a step in the ri direction.—**Thomas Baker**

Farewell to the record scar

Attaching value to the valueless a depreciating it so you can deduct it is t oldest trick in the taxpayer's book, an makes the IRS see red. Especially wh they don't know the deduction exists.

Last month the IRS issued a reven ruling warning the self-employed to st hiding tax shelters between the lines their returns. The IRS is convinced t businessmen are using "investments"

ıgs like master recordings of music, nuscripts and lithographs to offset le- mate business profits by washing the ense of such investments against iness earnings without breaking it . Virtually undetectable by the IRS, se shelters are nearly impervious to lit. Naturally, such invisible shelters act hordes of investors, and the IRS is ng to clamp down on the game.

llen Murphy, an IRS spokeswoman, lains that regulations have *always* ted that separate businesses need to reported on separate Schedule Cs (the ıpartnership, self-employed form), but IRS intends to step up enforcement those regulations, retroactive to any endable year. Says Murphy, "The rev- ıe ruling was designed to highlight the ulations and show how penalty provi- ıs could apply to the failure to file a arate Schedule C."

Obviously these shelters have done lit- to help the economy. Investors have n, in the words of one tax expert, rowing money down the sewer." re's how one of these shelters works: romoter produces a number of master ordings of mediocre performers. He y even take old recordings that no- ly wants and use them. The master ording is then resold to an investor as ax shelter, at a hefty profit to the moter. The investor pays a certain ount down, and is given a nonre- ırse note to inflate the "fair market ue" of the record. With investment dit and depreciation on the leveraged ue, the investor gets as much as 4 ıes his investment as a writeoff on the l. Nobody really cares what happens he records. Chart-busters they aren't. ays Philip Wiesner, a partner in the ional tax office of Peat, Marwick, tchell: "If capital investment is being ıoned off because of uneconomic tax lters like these, that's a distortion in economy. What the Service is trying do is force people to look at the eco- nics of the deal." Putting it politely, esner adds, "There is a tendency for ces to be artificially inflated, and if estors get a large writeoff they tend to examine the deal very carefully." nething to do with ignoring the uths of gift horses.

One prominent tax-shelter lawyer who handled record shelters views the ent ruling as a part of a tendency by IRS to force tax shelters to fill the d they had been established to serve the first place: stimulating invest- nt. "The government has really ved warning," the Madison Avenue orney said. "Because the IRS is crack- down on nonproductive tax shelters, ple are facing the reality that they're ng to be disallowed in the end, so y're going into sound investments real estate projects and oil and gas ling equipment."—**Jonathan Greenberg**

3:06 P.M.

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Piedmont Aviation founder Tom Davis with his vintage Piper E-2
Still flying after all these years.

Piedmont is on the runway for fast growth. Will it soar like Delta—or sputter like Braniff?

Fly me, I'm little

By Jean A. Briggs

Tom Davis, president, treasurer and founder of Piedmont Aviation, gets right to the point when he talks about deregulation. "We opposed it," he says. "We thought bigger airlines would pick off our best routes." Still Davis, lean and taut at 63, did more than just complain. "We saw it was going to happen, so we decided to get ready."

The small, North Carolina-based carrier prepared with a vengeance. In response to a government policy he didn't like, Davis quickly implemented a strategy that has brought Piedmont its greatest growth ever. Since 1978, when airline deregulation became law, his company's revenues have grown by over 80%, reaching $484 million last year. Earnings, meanwhile, have nearly tripled, to $16 million. In the old days, Piedmont was growing at a more modest 13% per year. Its new zip hasn't gone unnoticed on Wall Street: Piedmont shares were up by 90% in the first quarter of 1981—one of the best performances on the NYSE.

Nearly all airline stocks have done well recently, but Piedmont's profit per mance is in sharp contrast to the rest of other carriers. Earnings at Ameri and Eastern, for example, began to no dive in 1979. Each of those compar was in the red last year, and the two l a total of $167 million. Regionals l Ozark have fared better, but even earnings were off in 1980. Only Tex based Southwest outpaced Piedmo revenue gains and was neck and n with it in terms of traffic growth— Davis' earnings gains stand alone.

Rapid growth, of course, doesn't ass success. Piedmont's problem is financ the new planes it needs to service routes. The company has been to the nancial markets twice since deregu tion—in 1979 to sell convertible deb tures and again last December to sell c vertible preferreds. Given the ei additional Boeing 737s Davis has just dered, more financing could be in stor though Piedmont may be able to rely banks instead of the financial markets

Piedmont is unusual in its indus because it started as a general aviat company and diversified into the airl business. Davis recalls coming home Winston-Salem from college and takir summer job to set up Piper and Stin aircraft distributorships in North Car na. His employer was called Camel C Flying Service, but less than a year la it reorganized and became Piedm

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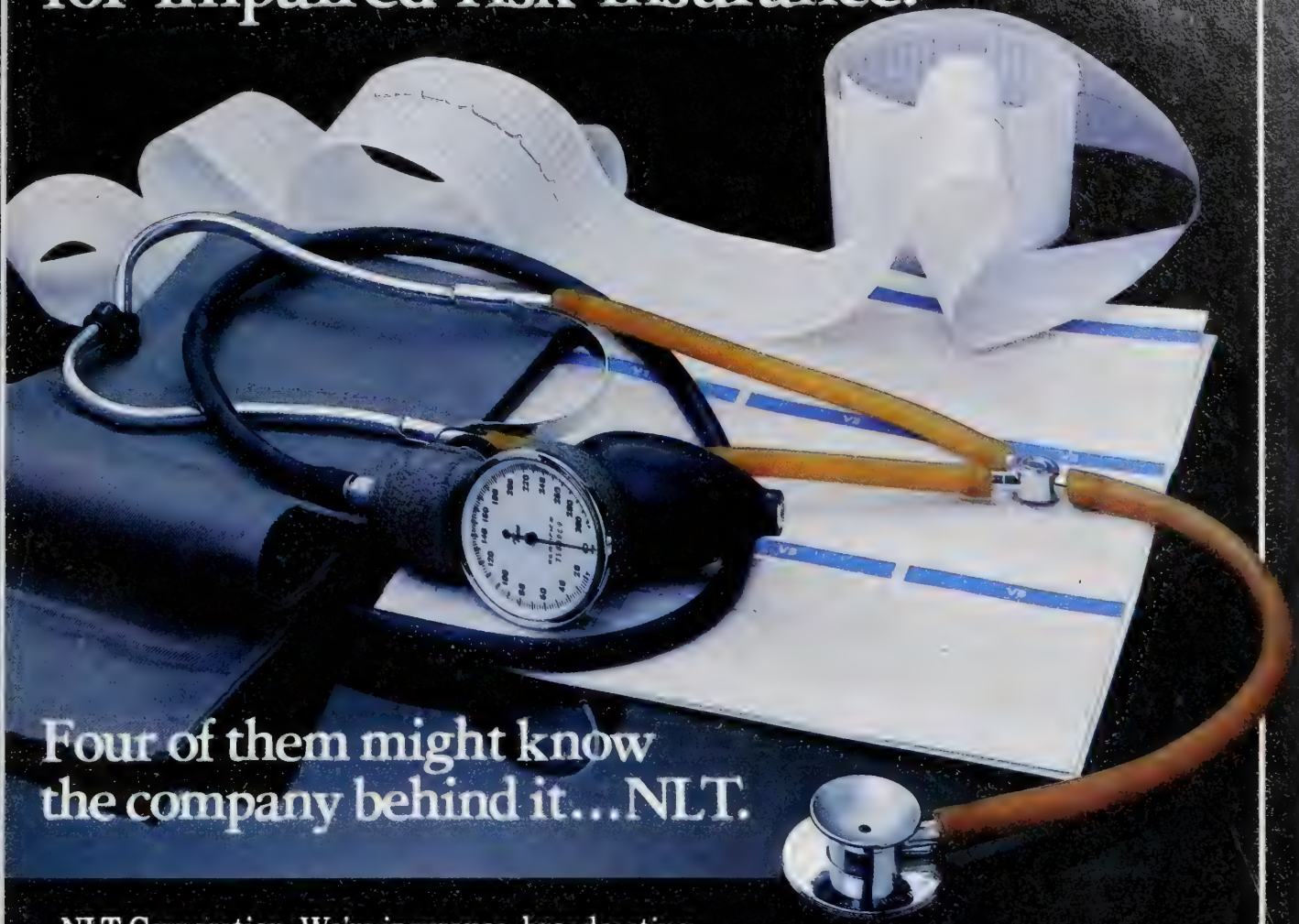

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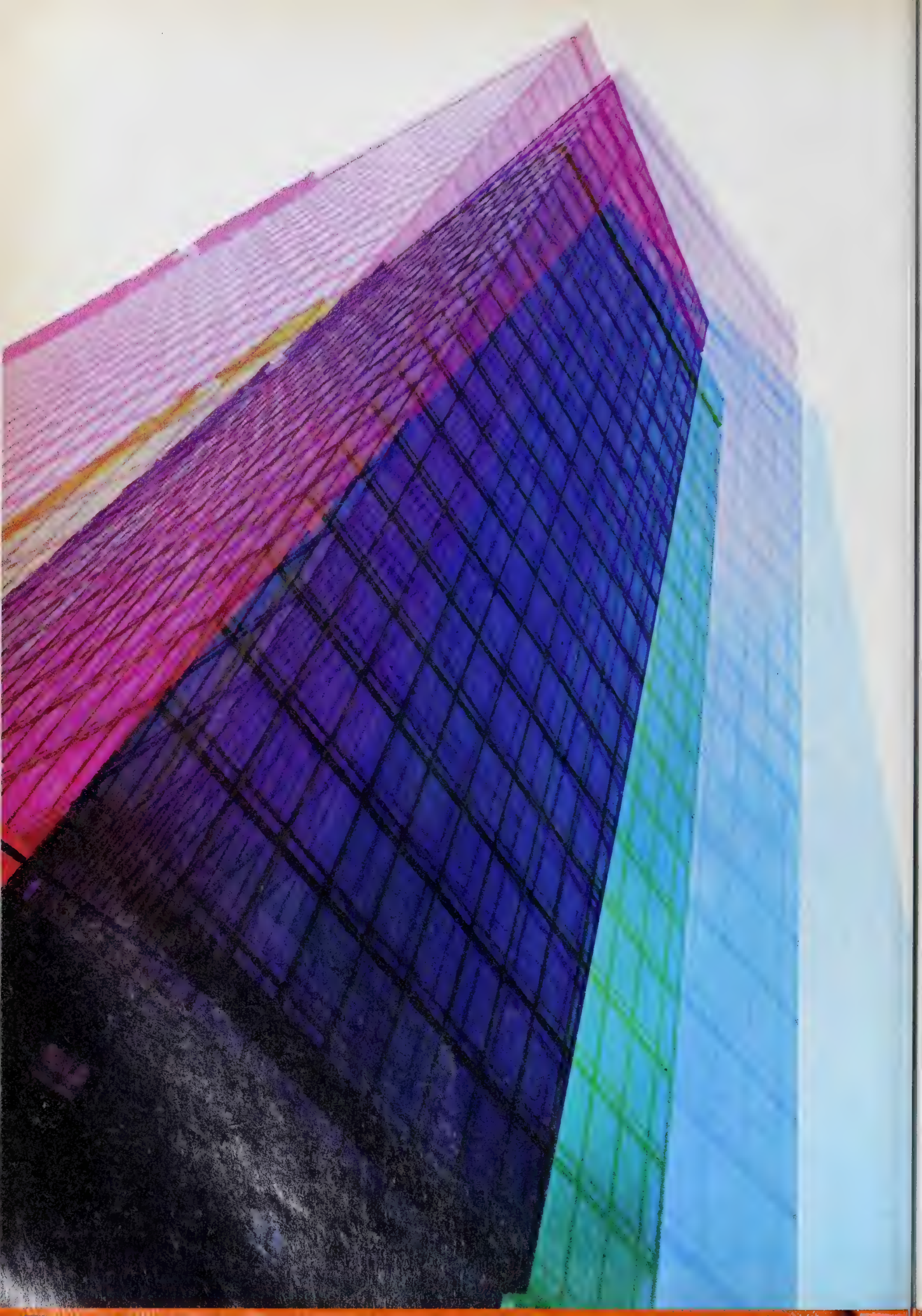

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Aviation. The primary business was still selling planes, but Piedmont also offered ters and an aviation school. "During World War II we ran a flight training service for the military," says Davis. After the war we were one of the first to get a local service certificate from the Civil Aeronautics Board."

Until recently, Piedmont has been steadfastly conservative. "We depreciate our aircraft over 12 years," Davis brags, "not the 14, 15 or 16 years that is common in the industry. We also purchase most of our planes instead of leasing them. That means we don't have to negotiate new leases at today's prices." Davis is also a low-cost operator. Good relations with unions allow Piedmont to use two pilots where some of its competitors must have three; the airline also saves money by flying relatively fuel efficient Boeing 737s.

Piedmont's initial routes were from North Carolina cities like Wilmington and Winston-Salem over the Appalachian Mountains to Ohio and the Midwest. Growth was slow and methodical, with a gradual addition of service mainly in the Southeast.

Deregulation changed all that. Piedmont began juggling routes following what Davis calls a "bypass" strategy. He aims to get more business out of his traditional service area in the Southeast rather than jumping into crowded transcontinental markets, as Eastern did, or expanding far afield like Braniff. Davis' goal is to provide direct jet flights between middle-size Southern communities and cities as well as other metropolitan centers such as Denver, Houston and Boston.

In the past, Piedmont's chief executive explains, flying from Raleigh-Durham, N.C. to Tampa, Fla. meant changing planes in Atlanta—a notoriously crowded airport. Now Piedmont has a nonstop flight. Similarly, going from Raleigh-Durham to Dallas required an Atlanta connection. Piedmont offers direct service or a change of planes in Charlotte, N.C., which Davis has made Piedmont's hub, much the way Delta uses Atlanta.

So far, Piedmont's deregulation recipe is a success. "We're not trying to split up the existing pie," says Davis. "We're cooking a whole new one." If the economy cooperates, Piedmont may be able to keep all its new planes full long enough to pay for them. But risks abound: If Davis' culinary skills are too good, his profits will encourage cut-rate competitors like the fledgling People Express, which has already announced plans to fly between Newark, N.J. and Norfolk, Va., to take him on. Alternatively, Piedmont's heavy debt burden leaves the carrier exposed if recent growth can't be sustained.

Tom Davis may not have wanted deregulation, but he has managed to live with it—dangerously. ■

Employees do well when a company doe well. Out of that simple truth old-time stee maker John McConnell has made a fortune.

Spreading the wealth

By William Baldwin

STEEL AND AUTOS ARE TWO industries where you don't expect to find bustling entrepreneurs making a lot of money. That makes the success that John H. McConnell has had with his Columbus, Ohio-based Worthington Industries all the more striking. Worthington's core business is selling steel to auto companies. McConnell founded the firm 26 years ago in his basement, and it should do something like $400 million in sales this year. For the past decade earnings per share have been compounding at a 36% annual rate, and return on equity has averaged 29%. The stock is up 3,200% since the first public offering in 1968.

McConnell is a portly, cigar-smoking capitalist who looks like a tycoon from a Herblock cartoon. Ask him his secret and he will offer a homily about the Golden Rule, how important it is to treat workers and customers as you would want to be treated. It sounds utterly corny, but it turns out there's a lot of sense to it. He does treat his workers well—with quarterly profit-sharing checks that easily double a production worker's wages and have a remarkable effect on productivity. He treats his customers to reliable, fast deliveries of close tolerance steel—and they pay a premium price for the service.

McConnell's is an all-American success story. Out of high school in Chester, W. Va., he went to work in the local National Steel Co. blooming mill where his father worked. After that there was a stint in the Navy and a GI Bill education at Michigan State, where he played football and worked the night shift on an Oldsmobile assembly line in Lansing. He put in several years as a salesman for some big steel companies until 1955, when he scraped together $1,800 to open a steel brokerage business. Later that year the business became Worthington Steel, custom processor of st coils and owner of one $53,000 slitti machine.

That slitter is still in use in one Worthington Steel's six plants, a spi 244,000-square-foot building with view of McConnell's office. Worthingt Industries has branched out into an sortment of products, from propane c inders for hot-air ballooning to plas pipe fitting, but steel processing still counts for more than half of sales. T auto industry remains a dominant c tomer of the steel division, with Gene Motors alone accounting for 20% of sales. It's remarkable that Worthingt has never had a loss year and has h only one, 1961, when profits were dow

McConnell, 57, is sitting on $47 m lion worth of Worthington stock, but sounds like any small-town busine man. He's a Freemason, a hospital tru ee, a political conservative and a golf He never buys foreign steel because considers it unpatriotic and he has pa bonuses to employees for buying Ame can-made cars. His number-two m President Donal Malenick, 42, joined t company out of high school as a labo 23 years ago. There's no financial w ardry or technological innovation to plain Worthington's results. In this mu dane business the only razzle-dazzle is the bottom line. Earnings for fiscal 19 ending May 31, were $17.6 million, from $500,000 ten years ago.

If there is any innovation in McC nell it is in his attitude toward la relations. His employees are, in a w partners. This month third-quarter p it-sharing checks went out to 696 ra and-file workers in the steel and cylin operation. They averaged $3,175 ea The $2.2 million pool represents alm 17% of operating earnings. That's in dition to the executive bonus pool ma up of 9% of earnings. Executive bonu run from 150% to 200% of base pay.

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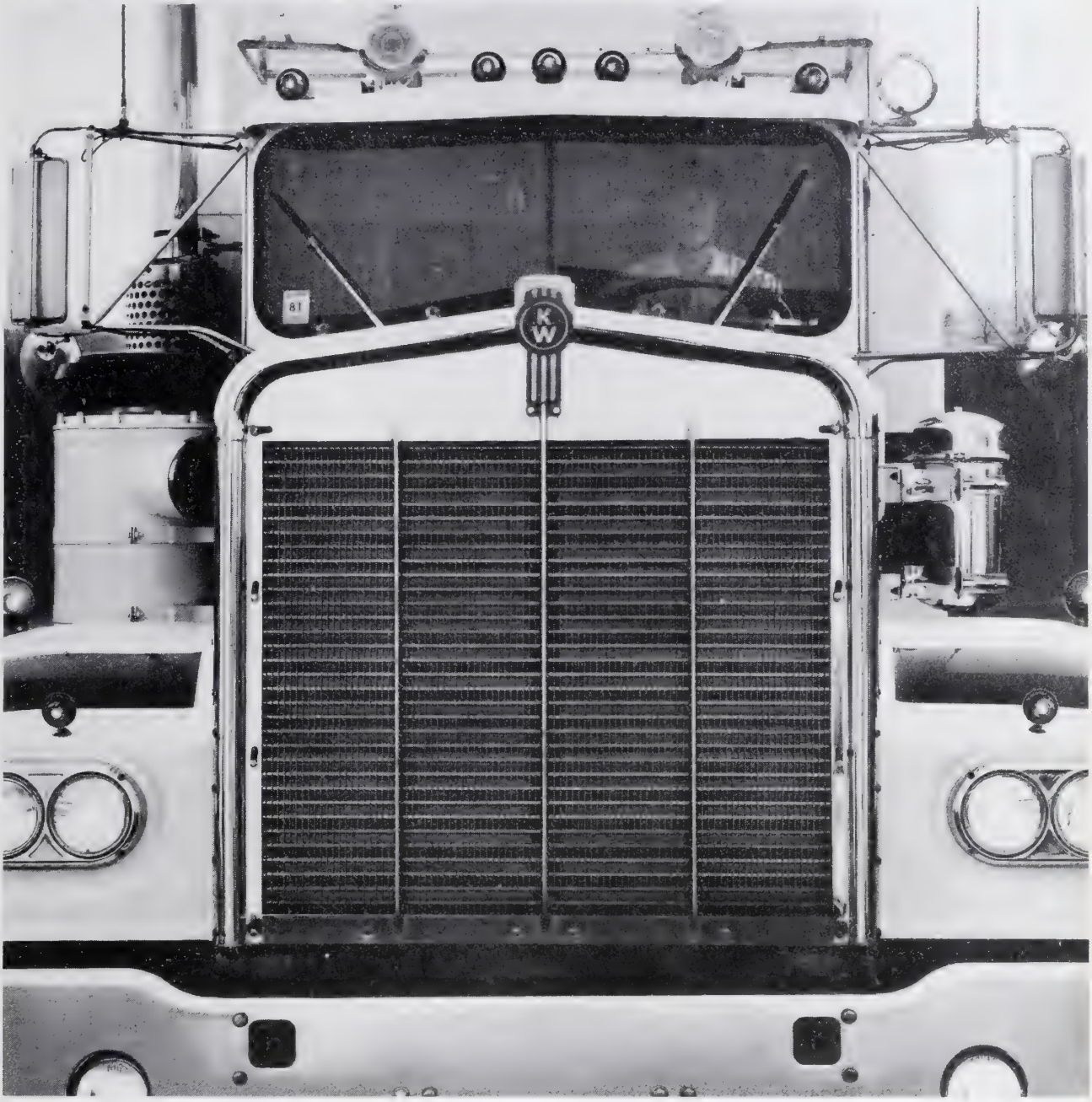

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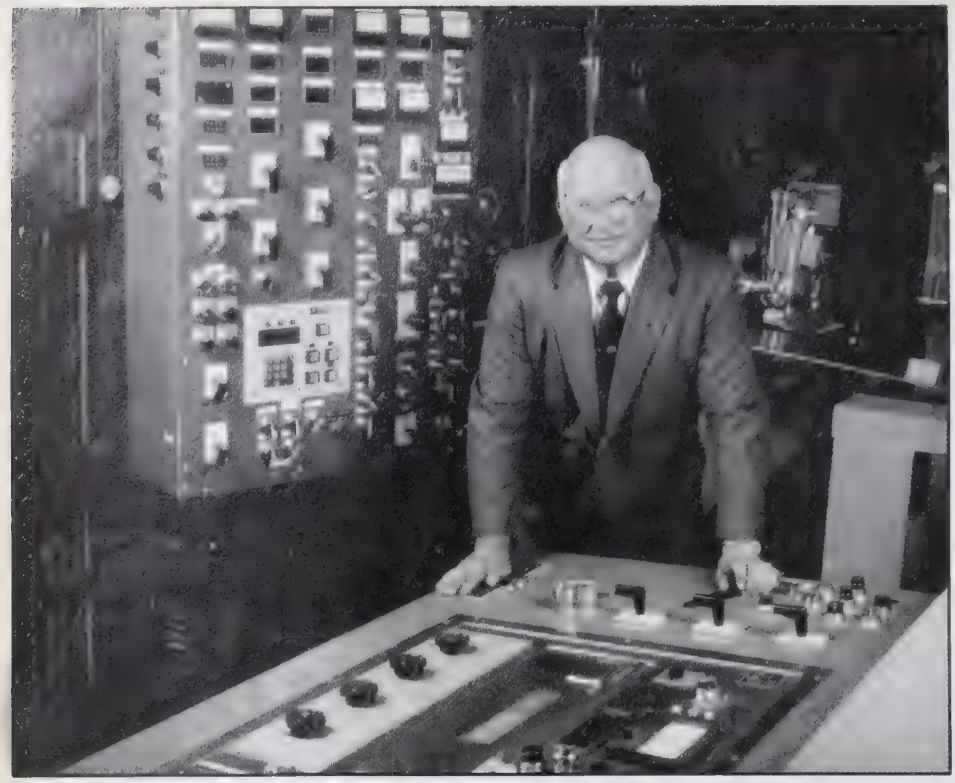

Worthington Industries' founder John H. McConnell
"We give a man responsibility and authority and let him do his job."

every nonunion worker is eligible for profit-sharing. McConnell has no unions at any of his homegrown plants, although there are some at a foundry and at a pipe-fitting operation he acquired. He's hoping they'll go away. Here's his strategy: He puts the factory's nonunion employees, such as the front-office clerks, on profit-sharing and waits for word to get out about how big the checks are. At three acquired plants—steel-processing centers in Chicago and Baltimore and a pipe-fitting plant in Puerto Rico—workers threw out unions so they could join profit-sharing.

It's not hard to see why. Including his base salary of about $13,500, a slitting-machine operator at the Columbus steel plant could easily clear $27,000 this year if Worthington doesn't slip up. The man (there are no women at this plant) has no guarantee of any profits, but he has a good chance of hanging on to his job even in a recession. "We never lay anybody off once they've passed the six months," McConnell boasts. A union would be hard pressed to make more. And, says Peter Ingersoll, an E.F. Hutton analyst, "it doesn't do you much good to make $25,000 if they close the mill on you."

Along with quarterly payouts the workers get chalkboard lectures about the meaning of profit and loss, the cost of absenteeism, the cost of scrap and the importance of productivity. McConnell counts on peer pressure to keep factory hands busy. "We tell them we don't want to hire extra people because that's taking money out of their pockets," he says.

Inculcating the capitalist ethic pays off: Absentee rates at Worthington's profit-sharing operations are 2%, compared with 5% at its union shops; Worthington claims its reject rate is 1%, compared with 3% to 4% for the industry. Tons moved per man-hour is about a third higher than that for the average steel-service center specializing in flat-rolled steel. This in spite of the fact that Worthington is usually doing more to the steel—annealing, cold rolling, pickling—than its competition.

Last week I got my profit-sharing check of $1,900. That was the take-home," says one 22-year-old, an assistant on a slitting machine by night and a student at Ohio State by day. He says the operator he works under keeps him running, with only 15 minutes for breaks in an eight-hour shift. He shows off a gash in his leg, where he had 14 stitches after tripping over a coil of steel. He's not dismayed by the hard work. He's studying metallurgy and wants to work in Worthington's technical department.

Productivity. It's an overused, little understood term. Many businessmen agree that low productivity is a problem in the U.S., not because workers are lazy, but because of featherbedding concessions granted to trade unions. Worthington proves the point. The absence of such rules at Worthington makes for extremely high productivity.

For, make no mistake about it, John McConnell isn't giving anything away. During bad quarters, employment costs shrink automatically without any layoffs. In good quarters, when Worthington demands six- and seven-day weeks, th base pay on which overtime must b paid is comparatively small. In the no union plant, foremen can reassign work ers arbitrarily when a machine is broke or an operator absent. During some slac months last year Worthington had stee workers pouring concrete for a new $ million cold-rolling mill. Others were a signed to Worthington Cylinders, a fa tory next door that makes steel and alu minum pressure cylinders. At Worthin ton, two men run a slitter; at unionize competitors, there are three or more o the larger machines. Perhaps the greate effect of Worthington's unusual compen sation is the one that is hardest to quan tify: the stake that profit-sharing give workers in their employer's success.

It took McConnell a while to come u with this system. In the first, shaky yea of business, he remembers, profit-sha ing meant Christmas hams to his hal dozen employees and tonnage bonuse that came to all of $50. "As we starte selling more and more precision steel, became obvious that the tonnage bonu could be self-defeating," McConnell say So he abolished it in 1966, substituting profit-sharing plan that was calculated t yield the same dollar amounts.

The question now is whether McCon nell can maintain his growth momen tum as he strays from the steel busines he knows best. In a little over a decad McConnell has laid out $71 millio mostly cash, for a string of acquisition that have left Worthington with a risk 77% debt-to-equity ratio. The first bi deal, the 1971 purchase at $1.9 million o the money-losing cylinder line of one o Worthington Steel's customers, was bonanza. It earned $5.6 million pretax o $30.6 million in sales last year. The mos recent, last year's takeover of Buckey International, nearly tripled Worthin ton's work force when Buckeye's princ pal business, railcar castings, was abou to take a dive. The subsequent layof don't bode well for speedy assimilatio of Buckeye's unionized workers.

McConnell makes no pretense of fo tering work-place democracy. He doe have employee councils that have a vet power, rarely exercised, over promotio of a probationary employee to perma nent status. But that's not so much co determination as a way to dramatize t workers that they can't afford laggards i their midst. "We don't believe in group for decision making," he says. "We sa give a man authority and responsibilit and let him do his job." But then ther are no quality control inspectors a Worthington Steel. It's enough that th shipment goes out with the machine op erator's name on it.

You could call all this, we suppose union-busting. But is that so bad if leads to higher productivity, fatter pay checks and fewer layoffs? ■

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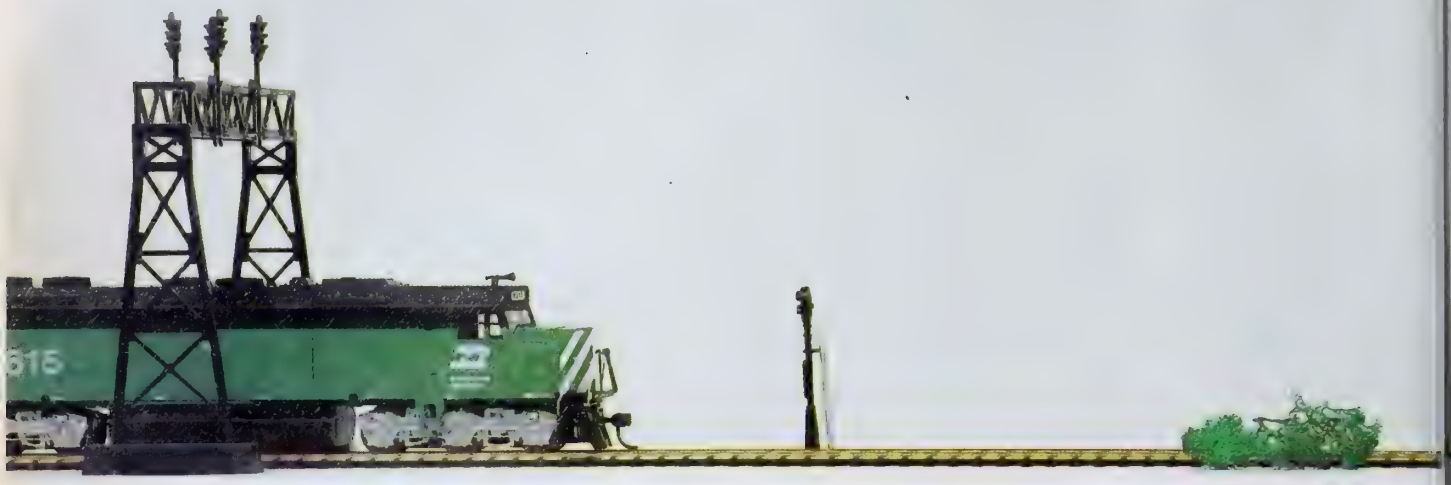


Burlington Northern has spent big to develop its natural resources, and its stock price has tripled in the past year. But the best is yet to come.

A railroad for the long haul

By Paul Gibson

WHAT MAJOR INDUSTRY group performed best on Wall Street during the past year? It wasn't the energy stocks, which collapsed in November after a spectacular rise. Nor was it technology companies, despite the universal fascination with microchips and gene-splicing. Utilities? Consumer goods? No, none of these.

What's left? Why, the stodgy old railroads. Since April of last year the ten largest railroads have more than doubled in value, while the overall market has advanced by only 33%. In terms of total capitalization, that's a quantum jump.

The *railroads*? What's going on here? Ask Dick Bressler. He must have seen this coming. Ten months ago he left the oil industry to get into railroading. Bressler was an executive vice president of Los Angeles-based Atlantic Richfield Co. who became Burlington Northern Inc.'s third chief executive in two years. To make the move to St. Paul last June, Bressler, 50, got a fat $400,000 salary, plus the chance of buying 25,000 BN shares for a nominal $2,500.

That was the opportunity of a lifetime. Since Bressler came on board, Burlington Northern's share price has more than doubled—to the recent price of $71—and his holdings are now worth $1.8 million. ARCO's stock? It's in the dumps along with the rest of the oil industry. After a short-lived runup it's now trading around 50, roughly where it was when Bressler left.

Over the past two years, in fact, railroads have stead gained popularity with investors. Union Pacific, Santa Fe a the Burlington have been among the performance standou The early thinking was that those resource-rich lines we benefiting from the decontrol of petroleum prices. But after t energy stocks peaked, railroads held their gains. Now they a outperforming the market again; transportation stocks are 8.5% in the past four weeks and 10% so far in 1981.

After four decades in decline, railroads are coming into th own. Nowhere is the potential greater than at Burlingt Northern. It dawdled through most of the Seventies wi earnings stuck between $50 million and $80 million a ye Since 1977, however, revenues have almost doubled, to $3 billion, while earnings have almost tripled, to $223 million.

The future? Consider this: BN is the nation's largest railro and it is ending a five-year, $1.4 billion capital-spending spr just as a new regulatory environment seems likely to make basic business more profitable than ever. Beyond that, the co pany is overflowing with natural resources. It has 1.5 milli acres of timber—second only to Weyerhaeuser in the Nort west. There are tempting oil and gas properties in the st largely unprobed Williston Basin, in the Dakotas and Montan And then there is coal. The BN has 11.4 billion tons, making second in proven reserves only to Conoco Inc.'s Consolidati Coal. If coal is the fuel for the future, BN is a double-barrel play. It can profit both from mining and transportation.

Chief Executive Bressler, rail boss Grayson

espite those riches, BN's market bid value today is a little than $2.7 billion. A takeover for a railroad may seem osterous—but so, only weeks ago, did the idea of paying billion for St. Joe Minerals or $1.8 billion for Kennecott.

he BN, of course, has long mixed enormous promise with sive problems. At the turn of the century, railroad magnate es J. Hill and banker J.P. Morgan joined the Great Northern the once-bankrupt Northern Pacific and then tried to add Chicago, Burlington and Quincy. But Teddy Roosevelt, a ulist Republican, cried monopoly. In the landmark North- Securities case the Supreme Court quashed the merger. ough the Great Northern and the Northern Pacific contin- to occupy the same building in St. Paul—with offices rated by cement walls on all but the executive floor—the panies never merged again until 1970.

ven then, the timing looked bleak. The combination that ted today's BN came just before the Penn Central bank- cy, and in its initial years the BN, too, was hardly robust. reason: The 1970 merger guaranteed jobs to win union port, and BN was soon paying out 60 cents of every dollar in es and fringe benefits, compared with about 45 cents at r railroads.

1975, as funds ran dry, BN's directors slashed the divi- d. Two years later on $1.8 billion in railroad revenues, ax losses hit $10.5 million. That January, Chairman Louis k journeyed to Pittsburgh to attend a routine traffic club ting. That was the *stated* reason. The real reason was that k wanted to talk with Richard Grayson, chairman of the co.

ne two men had become firm friends when they worked ther as Frisco dispatchers during World War II. Over a ate breakfast they set the wheels in motion for a giant ger that was finally approved last November. Now com- d, the BN and Frisco rank second only to the CSX in oad revenues but seventh in pretax income.

the wake of the Penn Central's difficulties, however, most nt rail alliances have been less than complete mergers. Not Burlington Northern. Just as in its 1970 merger, only one oad and insignia will survive. All traces of the Frisco are g replaced by the BN's vivid green and white colors. "It's a r pill to swallow, particularly for a company that has been he New York Stock Exchange for over a century," sighs the co's Grayson, "but that's the way it is."

hat put BN on the fast track? Bressler credits much of the nt earnings improvement to milder-than-normal weather sizable cost savings on the rails—particularly from unit ns for both coal and grain hauls. Earnings also got a lift in) because BN was winding down its massive effort to expand coal-hauling capacity. That reduction in maintenance-of-way expenditures boosted profits handsomely. While essentially a commodity hauler, BN also handles many Datsun and Honda imports that arrive on the West Coast from Japan—a brisk business, that.

From a financial point of view, of course, railroading has long been intriguing. The reason, in a phrase: the industry's extreme leverage. It is a business where marginal costs are almost nothing; fixed overhead and maintenance is all. Get a little extra traffic, and most of the gain runs right to the bottom line. For years, however, the traffic gains, particularly on the BN, couldn't keep pace with rising overheads. The leverage was working in reverse.

Suddenly all that is changing.

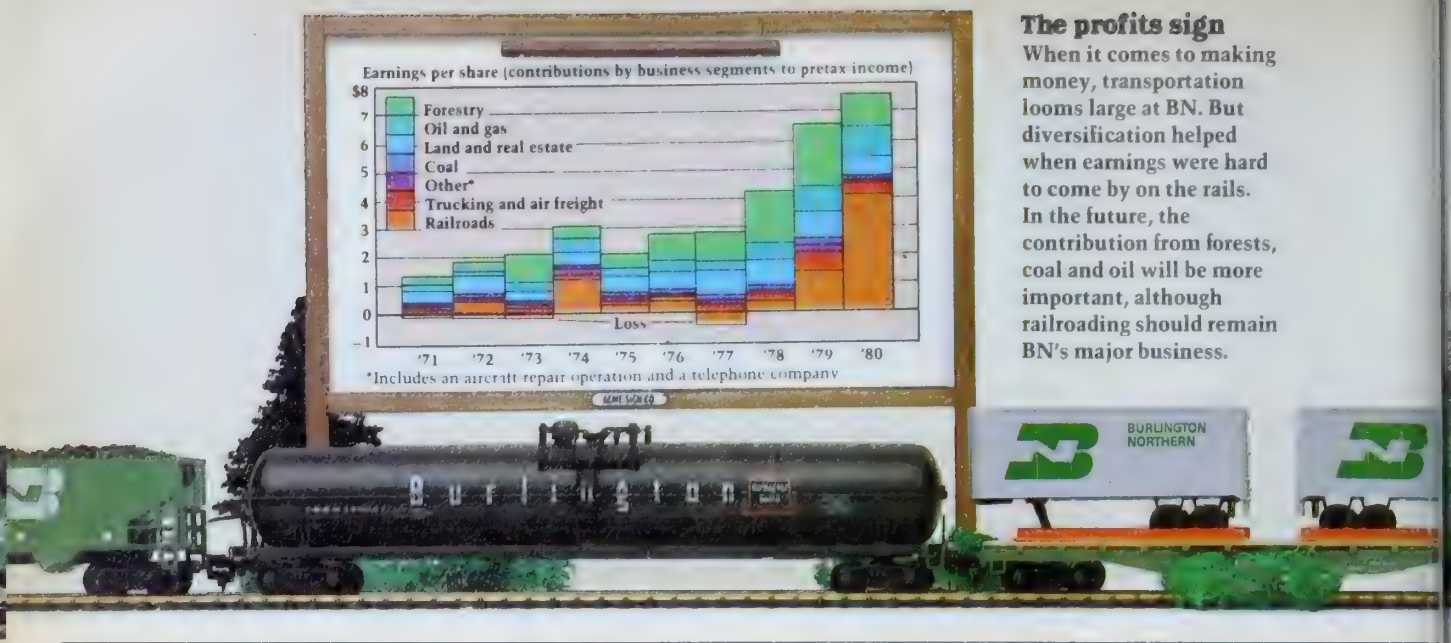
For most of the Seventies the BN earned less than 3 cents on the sales dollar. Since 1978, its net profit margin inched up 1.1%, to 5.6%. That's not much of a return, but enough to almost double BN's net profits.

What's to prevent BN from being squeezed in the other direction again? Consider the new economic climate in the industry today. Railroads are just beginning to benefit from deregulation under the Staggers Rail Act, one of the last important pieces of legislation passed during the Carter Administration. Lawyers and bureaucrats are still fussing over the details, but radical changes are ahead. In time, for example, carriers will be largely free to set their own rates, strike exclusive contracts with shippers, abandon unprofitable rail lines and form grand new alliances. As one railroad watcher succinctly puts it, "Management prerogatives will be more important in an industry notorious for mediocrity."

In this era of megarailroads, few can match the prospects that stretch before the Burlington Northern. Its merger with the Frisco gives the company considerable marketing strength. Together, the two lines now span some 25 states and two Canadian provinces, stretching from the Pacific Northwest to the Florida Panhandle, from the Prairies to the Gulf Coast.

The logic behind the combination is flawless. The Frisco served one of the fastest-growing territories in the Sunbelt. But with only 4,500 miles of track, it was like a big X centered on Missouri. The road originated barely one-quarter of its own traffic and thus split revenues unfavorably with other carriers. Linked with BN, however, the whole becomes greater than the sum of its parts.

Already 130 additional carloads are moving north daily from the Frisco onto the BN, and almost half again that many are heading south. Lumber, the BN's fourth-biggest commodity, can now go to Alabama over one company-owned route rather than being switched to the Illinois Central Gulf Railroad at



The profits sign
When it comes to making money, transportation looms large at BN. But diversification helped when earnings were hard to come by on the rails. In the future, the contribution from forests, coal and oil will be more important, although railroading should remain BN's major business.

"This place is a complete zoo"

Passage of the Staggers Rail Act last October was supposed to move the nation's rail carriers down much the same "deregulation" road the airlines have taken. At the moment, however, it's doubtful that the 1,800 bureaucrats that make up the Interstate Commerce Commission are hard at work behind their Doric columns on Constitution Avenue in Washington making themselves unnecessary. For three months the ICC, the nation's oldest and most hidebound regulatory agency, has been without a chairman. At the moment, 6 of the 11 seats on the commission are vacant. ICC staffers, of course, will play critical roles in determining what the new legislation really means. But today, six months after it was passed, no one yet has much of an idea.

Some things can be easily inferred, of course. The rails, for example, are not likely to see the same chaos that swept the airline industry after its deregulation: Airlines can easily enter and escape a particular market, but railroads cannot pick up their tracks and move into a new territory.

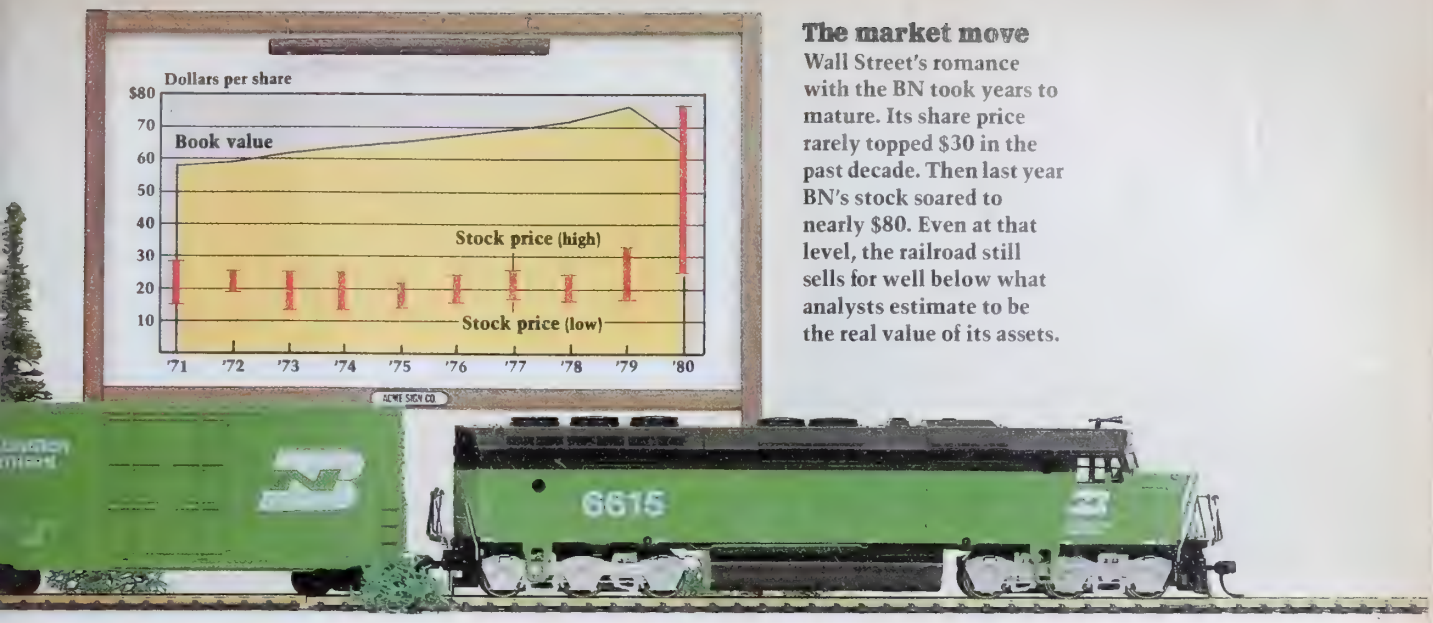
Even so, many railroaders still fear price wars will break out in the months ahead. Warns Union Pacific President William Cook, "There could be a bloodbath for a while if someone cuts the hell out of rates to buy business." Should a bloodbath occur, the better-capitalized companies—especially rich western lines like BN, Santa Fe and UP—are likely to get stronger while their weaker brethren fall by the wayside or become candidates for acquisition.

Early regulators out to corral their prey
This 1887 cartoon shows ICC commissioners ganging up on railroads, but now the lasso is in other hands. Reformers have cut the agency's powers.

Since passage of the Reed-Bullwinkle Act of 1948, railroads had enjoyed a special competitive advantage: They had been permitted to meet with one another and set rates without fear of antitrust prosecution. Through four major regional rate bureaus, carriers established tariffs. Once these were approved by the ICC they seemed cast in bronze—no surprise rate cuts to boost market share.

Now, under the 1980 Staggers Rail Act, railroaders are beginning to set rates independently, and—starting next January—they will lose their antitrust immunity. That prospect sends chills up the spines of not a few industry executives. As one railroader put it, "This is a tremendous change for us. We must now get a real handle on costs, which is something many of us have never done before."

Indeed, equating of costs with rates has rarely been a strong point under ICC regulation. Back in the mid-1970s, for example, the ICC approved a general 7% increase in freight rates. At first glance it seemed certain to bolster railroad profit margins. But, unfortunately, the fine print contained exemptions for 14 key commodities like cars and car parts, coal and fresh fruits. The rationale: The shippers of those commodities were in depressed industries and deserved a break. "It was as if the railroads



The market move
Wall Street's romance with the BN took years to mature. Its share price rarely topped $30 in the past decade. Then last year BN's stock soared to nearly $80. Even at that level, the railroad still sells for well below what analysts estimate to be the real value of its assets.

in such good shape they could afford to pick up ›urden for General Motors," says Constance ns, ICC associate director of policy and analy- ho vainly opposed the ruling. "It was a regula- ightmare."

other ways, too, the effect of deregulation is to forecast. For example, the ICC will now get ved in rate-setting only if proposed rates exceed by a certain percentage, and can even pull out ether if it believes there's sufficient competi- to protect shippers. Nowhere in the Staggers nowever, is any definition of sufficient compe- spelled out. That's just one area where the staff will have considerable influence.

th over half the commission seats vacant and airman in place, tension is simmering between ld guard of regulators and the new deregulators ht in during the tenure of former Chairman s Gaskins. A probusiness deregulator, Gaskins o a Democrat who left when the Reagan Ad- stration came to Washington. "This place is a lete zoo," says an ICC staffer. "Things are very as we wait for a new chairman."

at wait could be lengthy. Top contender Reese r Jr., a Nevada lawyer and longtime partner of n confidant Senator Paul Laxalt (R–Nev.), has nto unexpected opposition. Taylor has done work for the Teamsters, and there is fear his ntment might delay deregulation, particularly e it involves rail carriers and truckers reducing For his part, Taylor professes to be surprised by e fuss. Drawls Taylor, "For a little old ICC man to have to go through all this folderol s kinda crazy."

lor may have a point. Right now, however, it's bet the Reagan Administration isn't setting a priority on appointing a new ICC leader. Mean-, before real competition begins, the bureau- continue to jockey for position behind those ns on Constitution Avenue.—**Barbara Rudolph**

Centralia, Ill. Similarly, BN can carry midwestern grain either to the Gulf or to the West Coast, depending on which ports are offering the better export price.

BN's longest scheduled run is now between Portland, Ore. and Birmingham, Ala., a distance of 3,076 miles. That is significant, because distance is the key to profitable railroading. Money comes from hauling freight, not from loading and unloading rolling stock. Since the early 1970s the BN has increased its length of haul faster than any other line except the MoPac. At 650 miles, its average haul is close to that of top-ranked Union Pacific.

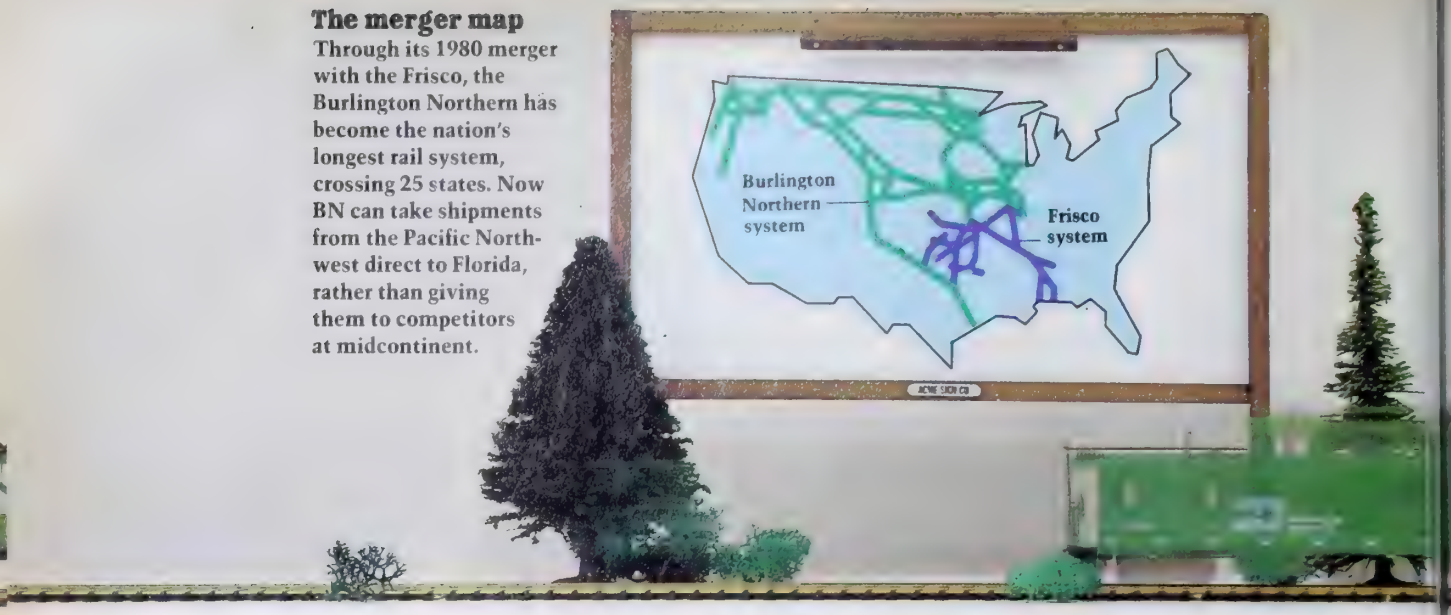
Coal will have the major impact on BN. Some 33% of U.S. reserves are buried near its lines. Potential is greatest in Wyoming's Powder River Basin.

Besides the freedom of deregulation and the boost of a make-sense merger, the BN is blessed with aggressive new management. There have been major changes at the top and Bressler has tapped Richard Grayson, the Frisco's boss, as his lead railroader. At 60, Grayson is widely regarded as one of the most knowledgeable senior executives on the rails today. His through-the-ranks career goes back to 1941, when he was a trainman. "Now the Missouri Mafia is taking over," says one operating man of the changes at BN.

Dick Bressler, too, comes on board with impeccable references. At ARCO, where he ran a huge chemical division, former colleagues remember him less as a brilliant intellectual than as a fast-paced decision maker. Says Louis Menk, who ran BN for most of the 1970s and led the search to find Bressler, "A lot of people assume Bressler is a resources man. Really he is a financial and operating guy, and that's why I chose him."

Indeed, Bressler earlier had hitches with American Airlines, where he helped finance its wide-bodied jets, and with General Electric, where he was a contemporary of Union Pacific's able president, William Cook. He joined GE after getting an M.B.A. from Dartmouth. Since he came to St. Paul, Bressler has shown a knack for acting quickly. This May at a special meeting he hopes stockholders will approve his plan to move corporate headquarters to Seattle, putting some distance between Burlington's diversified businesses and its railroad operation in St. Paul. He also wants to create a holding company, a move former executives had long tried to make. Such a structure, common in the industry, facilitates acquisitions for stock. Bressler also will be emphasizing management by profit center. The latter becomes particularly important when there's

The merger map
Through its 1980 merger with the Frisco, the Burlington Northern has become the nation's longest rail system, crossing 25 states. Now BN can take shipments from the Pacific Northwest direct to Florida, rather than giving them to competitors at midcontinent.



"We've got ourselves a couple of black eyes and some bruised shins from coal," says Bressler. To fight back, in 1977 BN decided to post higher coal tariffs unilaterally.

expansion money to distribute. Bressler believes that parts of his organization—including some rail business—can eventually generate returns far in excess of the company's current average.

If they don't? Bressler warns his managers that the laggards will be at the bottom of his list when it comes to expansion. Bressler is nominally pledged to pour $2 billion into capital expenditures over the next four years, but he has no firm commitments: "It's just a number on a piece of paper," he explains with a shrug. "Maybe we will spend it, maybe we won't." That's quite a change from the recent past, when BN regularly spent far in excess of its cash flow to get its railroad facilities into shape.

Tracks, ties and rolling stock, however, are only the most obvious of BN's assets. It owns the timber or has the mineral rights on land roughly the size of Massachusetts, Rhode Island and Connecticut combined. These northwest timberlands are primarily vast stands of virgin Douglas fir and hemlock. Burlington, of course, cannot yet match the oil and gas reserves of the Santa Fe or the Union Pacific, which struck it rich in the Overthrust Belt. But its oil patch bet is the Williston Basin, an area some geologists feel has promise.

Coal, however, should have the greatest impact on BN's future. Besides its own vast holdings, 33% of all U.S. reserves are buried in the areas it serves. This potential is most apparent in the Powder River Basin that spans part of the Wyoming-Montana border. There, BN's track sparkles in the sun as if it were polished with Brillo pads, and a coal train pulled by five diesels makes only a low rumbling noise as it glides over newly welded rail. Outside Gillette, Wyo. a sign reads "Population 7,194," but there are probably closer to 21,000 now dwelling in the neighborhood. This is a boom town with new houses, hotels and franchise stores everywhere. At the Center Bar the nightly question isn't if there will be a fight, but when.

Since the first shovel began removing overburden at Big Horn Mine, 17 others have opened. Two more—ARCO's Coal Creek and Shell's Buckskin—are under construction and another dozen are planned. BN geologists say 140 billion tons lie buried here. Likening the basin to parts of the Middle East is hardly an exaggeration, and BN is the only railroad that serves the region.

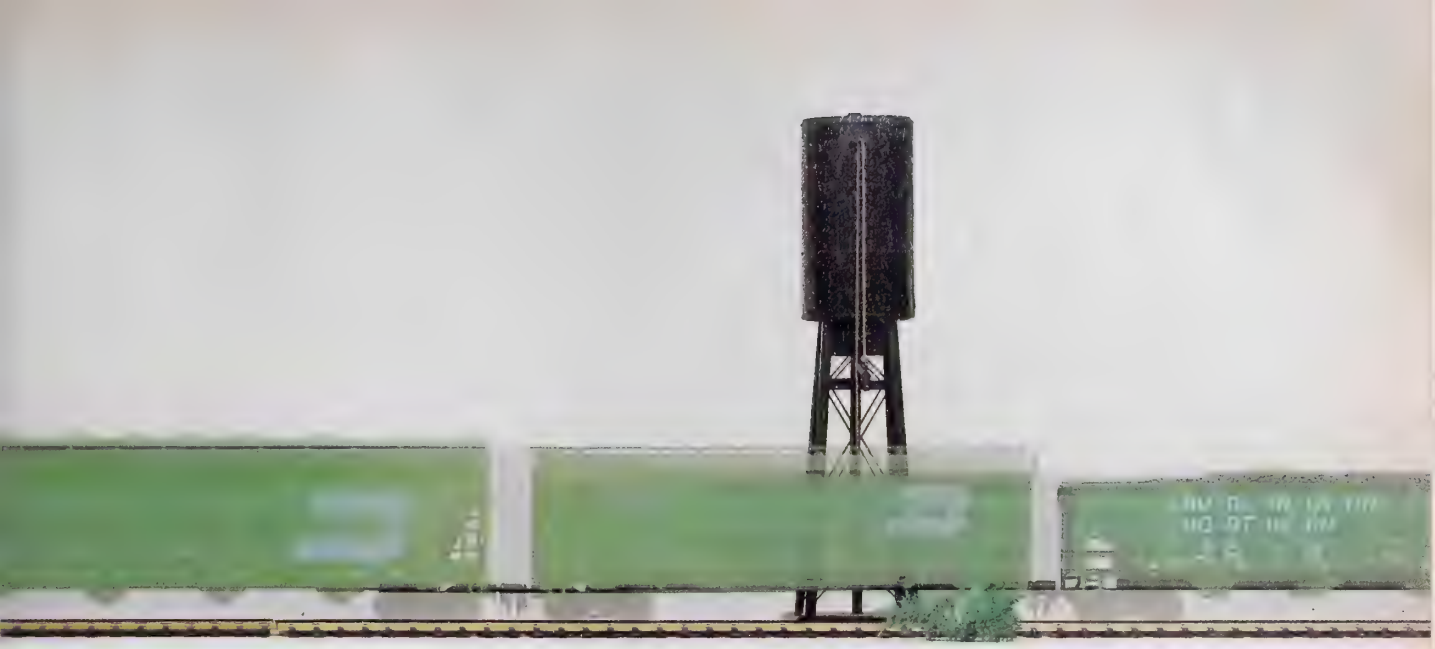
Belle Ayr mine, the area's largest, now produces 50,000 t a day—enough to fill 500 hopper cars. "We will have coal h until the 21st century," says mine manager Ed Calahan, poi ing to an exposed seam that is over 70 feet thick. Not surp ingly, BN's coal traffic is soaring. The road hauled 17 mill tons in 1970 and 100 million tons last year.

Initially, of course, such volume increases are as much b as blessing. To carry that much coal, BN switched to u trains. These lumbering mile-long behemoths soon wrou havoc with BN rails, which had been laid earlier to t lightweight farm produce. In three years the company repla about 2,300 miles of track—an amount equivalent to half length of the Frisco—and put down 11 million ties. BN also l the first new rail in the U.S. since the Depression, a 116-m stretch in Wyoming between Gillette and Orin. This elimin ed bottlenecks that had delayed trains for hours.

Down the track in Alliance, Neb. there's more evidence BN's prodigious spending. A scant ten years ago its days a junction point seemed numbered, its switching yard thre ened with closure. Today, however, Alliance has one of nation's most expensive repair facilities. Opened 19 mon ago, the main shop, a cavernous building the size of f football fields, can overhaul as many as 85 locomotives and l cars in a day. The boast is that no train stays longer than hour for refueling and routine maintenance. An engine brou in on Monday will be completely rebuilt in one week. "We working with a seasoned crew that's no longer fresh off farm," says BN Senior Vice President John Hertog.

Buying such capability depressed earnings during the Sev ties. Then BN spent almost $2 billion, much of it on its c business. But now the savings should come rolling in. The n Gillette-Orin line, for example, cuts a full day off the typi train cycle. BN managers believe that they will probably han the 25% increase in coal shipments expected over the n two years without spending another penny on rolling sto Says Grayson, "We are starting to reap the benefits of blood, sweat and toil put into the Burlington over the p decade."

Some of the benefits, but unfortunately not all. In a colos mistake, BN executives assumed that coal traffic would produce much business in terms of total tonnage. As a resu BN sent letters of agreement to the electric power utilit offering rates that seemed reasonable at the time but ha turned out to be far too low. These have been interpreted, effect, as long-term contracts, and, sadly for BN, base pri were so low that price escalator clauses cannot begin to co BN's cost increases. Since 1973, railroad labor charges ha more than doubled, and the price of diesel fuel for locomoti



The flyer that paid off

Not all of BN's potential is on the rails or underground. Over the past eight years, it has become a major factor in the burgeoning air freight business. In 1980 Burlington Northern Air Freight, a California-based subsidiary, brought in an impressive $284 million in revenues, and posted earnings of $12 million. In terms of profitability, BNAFI's return on investment is far better than those of its parent's capital-intensive railroad operations.

Burlington saw the potential of air freight in the early Seventies. In 1972 Louis Menk, BN's president, lured 58-year-old Larry Rodberg away from Airborne Freight Corp. and gave him $1 million to start a company that would compete with his former employer. Other railroads, including Santa Fe and Southern Pacific, had similar designs. But today they are no longer in the air freight business. Burlington, meanwhile, is second in size among air freight forwarders in a crowded field that includes such savvy competitors as Emery Air Freight Corp. and Airborne.

A crisply dressed southern Californian, Rodberg thinks he knows the secret of his success. "In the beginning," he explains, "we went after the big, regular shipper—unlike Emery or Airborne, who operate increasingly in the small-package business." Instead, BNAFI for the most part handles large industrial shipments for major manufacturers. Things like computer and electronic components for Texas Instruments and Honeywell and automotive parts for General Motors and Chrysler. Recently, however, Rodberg did broaden his line to include small packages. "The mix of freight became important to us," he explains. "We had to defend our position. Now we have the whole waterfront covered, even though our real strength still lies with the big shipper."

Unlike many better-known rivals BNAFI does not fly its own planes—the critical distinction between an air freight forwarder and a carrier. Instead, Rodberg books space on scheduled airlines, maximizing his flexibility and minimizing capital expenditure. This low-cost strategy has caused problems for some competitors. Emery, for example, recently announced plans to purchase its own fleet—largely because cutbacks in airline night schedules limited its service options.

Rodberg isn't worried. In fact, he thinks a similar move would actually hamper BNAFI. "By relying on your own equipment for moving your own cargo, you lose a great degree of flexibility," he explains. "The competition jumped prematurely into flying their own planes. I think we do a better job on the ground than the airlines—and vice versa."

With offices in 126 U.S. cities and agents around the world, BNAFI is well positioned in air freight. But Rodberg knows his limitations. "We are proud of being a forwarder, and we don't want to be a carrier," he concludes. As long as profits keep winging their way back to St. Paul, Dick Bressler can hardly quarrel with that. He has plenty of other places to spend his money.—**Ellen Paris**

"You couldn't put such an array of assets together at any price," says Bressler, pointing to the sky-high bids for mining companies in the current stock market takeovers.

has rocketed from 12 cents a gallon to 90 cents.

"We've got ourselves a couple of black eyes and some bruised shins from coal," says Bressler. To fight back, in 1977 BN decided to post higher coal tariffs unilaterally—a decision Bressler strongly defends, though some 13 electric utilities are suing the railroad.

Since coming to BN, Bressler has had to spend far more time than he would have liked trying to renegotiate those old agreements. Already, he has visited the heads of all 37 of BN's utility customers. To each he gives the same three-pronged message: 1) Litigation only lines the lawyers' pockets; 2) BN is not getting rich at the utilities' expense; 3) BN will invest its money elsewhere if coal revenues don't improve. Bressler is adopting a carrot-and-stick approach. He will lay out the money for new rail lines and equipment for still undeveloped mines, but only if the utilities will pay reasonable rates.

Bressler has another worry. The Union Pacific wants into the Powder River Basin. It has a $60 million stake in a proposal by the employee-owned Chicago & Northwestern to build a new line that could divert 50 million tons of coal annually from the BN. Initially, the C&NW made a bid for a $300 million federal loan guarantee. But last month, clearly worried about Washington's new spending restraints, the financially shaky line announced it would also seek private financing. Given the economic and political roadblocks involved, the threat to the BN hardly seems imminent.

Bressler's more immediate worry is a passel of other resource deals that are as costly to the BN as those for coal-hauling. Coal reserves in Montana and the oil acreage in the Williston Basin, for example, have been leased at what, by today's standards, are nominal rates. Again, Bressler aims to renegotiate. In January a lease with Coastal States came due. Under the renewal terms, it must drill more than before and must give Burlington a share of any production.

Similarly in coal. BN is no longer content just to collect royalties. "We want to participate in the development of our resources," insists Bressler, his brown eyes sparkling. Consider an agreement with Montana Power, which takes about 7 million tons annually off BN's property. The 16 cents a ton it pays was agreed to nearly 20 years ago. Now, says Bressler, royalty on a coal deal typically amounts to 12½% of the selling price, often $1 a ton. He wants to renegotiate at a time wh there is a surfeit of western coal, and power plants are talk about taking less not more—hardly a propitious moment. I Bressler's eyes gleam again. This is a case of you can pay now or you can pay me later. "They might find us a lot toug to deal with in 1989 when that lease expires," he says bluntl

How about the timber? Years ago Norton Simon lambas BN's managers for cutting trees too slowly. Simon was a stockholder then and wanted BN to develop resorts in Cascade Mountains. Bressler denies his new policy vindica Simon, but he does want to increase timber sales, particula to Japan, China and other Pacific Rim countries. His mand as much as anything else is to see that BN's long untouch treasure trove gets developed.

"You couldn't put such an array of assets together at a price," says Bressler, pointing to the sky-high prices be offered for mining companies in the current stock mar raids. Much of BN's hidden wealth, in fact, is carried on books for nominal sums, often as little as $1 an acre. H much are its holdings really worth? Last October Potla purchased 93,000 acres of timberland in neighboring north Idaho from the bankrupt Milwaukee Railroad for $35 mill in cash—$1,400 an acre. That could make BN's $1.5 bill timberland alone worth $40 a common share.

BN's book value is now about $65 a share. A more realis number is $105 a share, according to some Wall Street a lysts. Put it this way: Buy a share of BN at today's $71 mar price, and, in effect, you are buying the underlying resour and getting the railroad for free. "Burlington Northern is wh the Union Pacific was a decade ago," says Morgan Stanle Andras Petery. If he's right, investors could get a pleasant r indeed. Since 1970, UP's stock has increased nearly tenfold

For the immediate future, Bressler will most surely be a h if he prevails as a negotiator. To the extent that he can wig out of long-term deals—either for coal or oil—there is the h of pleasant earnings surprises. Downside risk, fortunately minimal. BN has already charged off hefty right-of-way i provements, and BN at least makes some money on th underpriced energy deals.

Today's obstacles, in fact, may turn out to be less diffic than those the BN has already overcome. If 1980 was a indication of how leverage can work—and Burlington Nor ern's new crew clearly believes it is—then earnings this y may jump by better than 15% and continue exploding upwa "I don't know anything about being a hero," says Bressler w a satisfied smile, "but I do know that when you're growing li this you don't get many complaints from the stockholders."

Particularly if they're riding for the long haul.■

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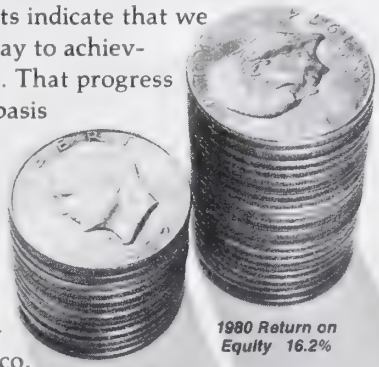

1980 Return on Equity 16.2%

1979 Return on Equity 9.6%

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National Aviation & Technology fund hasn't always soared. But now it's flying high with a new two-man management team.

The young aces

Marc Klee and Barry Gordon of National Aviation

If airline stocks keep climbing, can they outpace the averages?

By Carol E. Curtis

UNTIL RECENTLY, airline stocks were in the doldrums on Wall Street. But since January the updraft has been dramatic: The industry index has risen 27% in the last three months alone, and the average airline stock has risen almost 60% since last April. "These stocks are a counter-energy play," says Michael Armellino of Goldman, Sachs & Co. "They will go higher if we don't get more political upheavals in the Middle East."

Comments like that put a fat grin on Barry Gordon's face. Since 1973, Gordon, a 35-year-old executive vice president of National Aviation & Technology Corp., has managed its fund, the only mutual fund specializing in airline and aerospace stocks. Since Gordon came aboard, National Aviation's return has averaged 23% per year—twice that of the S&P's 500. Lately performance has been more impressive: For the first quarter of 1981, Gordon's $100 million fund was up 6.1%.

Founded in 1928, National Aviation grew up with the airline industry as a closed-end fund. Two years ago, after an attempted acquisition by the securities firm of Neuberger & Berman, it changed its status to open-end. Assets, then $134 million, plunged to $70 million as investors cashed in on the resulting increase in share value.

That gave the fund a large cash position, which depressed performance. In 1980, for the first time since 1973, National Aviation's return fell below that of the S&P's 500. Still, it posted a robust gain for the year.

That attracted the attention of Marc Klee. Fresh out of Wharton, he had been studying National Aviation as a senior airline analyst at Fidelity Management & Research Co. "People were redeeming the fund like mad all that year," says 26-year-old Klee, "but it still outperformed the Dow by 7 percentage points. Given the screwy nature of the stocks, that performance was rather phenomenal."

His reading of the numbers persuaded Klee to accept Gordon's invitation to jump from Fidelity to the airline fund. For the last three months, the two a experts—whose combined age is 61—have been positioning National ation for what they hope will be its ing hour. They believe that a double cialty in aerospace and airlines wor their advantage. In his visits to aero firms, for example, Gordon, who t his career at Eastern Air Lines, is o lookout for aircraft on the dra boards and fleet plans. "Most analy he says, "talk only to the airlines, competitors and customers." As a r he argues, they are late in spotting t and picking stocks.

Also, Gordon and Klee have bee only professionals doing researc some small airlines, and that home recently paid off big. In December, b most analysts were interested, Nat Aviation bought over 40,000 shar Piedmont Aviation. Since then, stock has soared 90%. National Avi also owns blocks of Air Florida Syst Frontier Airlines and US Air, stock 128% over the last year.

A current favorite is New York Ai aggressive new airline challenging Ea on the lucrative Boston-New York-W ington shuttle route. National Avi owns 35,000 shares of the stock 200,000 shares of Texas Air Corp., w has a 70% interest in New York Air. New York Air investment is up slightly from its value when it went p in February. But Gordon and Klee feel have another sure winner. "The com is nonunion, they've got the right flee a lot of resources," says Gordon.

Until 1976 National Aviation inve only in airline and aviation compa Since then it has selectively added t nology firms—mostly because they a connection with aviation. Why? don describes one recent visit Boeing plant, where he noticed a ce type of fastener all over the floor made a mental note of the product n and promptly made arrangements to it VSI Corp., the Pasadena-based m of the part. "I went through the ation and bought the stock," he Ten months later, Fairchild Indus bought VSI at 3 times the price Go paid for his shares. Other techno companies in National Aviation's po lio include Evans & Sutherland Com er, a maker of flight simulators, Ramtek, a computer graphics compa

Still, over half of Gordon and K assets are aviation related—and suc there is the key to future performa When airline stocks soared 27% in first quarter, National Aviation's h ings rose 33%. Do Gordon and Klee any doubts about continuing to out those averages? Gordon casts a cool past the airplane models on his desk have more confidence that we will perform the market," he says, "than the market will continue to go up."

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a long time Walter Schoenfeld called his er's company "the little necktie business." n he decided to get serious.

As the twig is bent

Profiles

Schoenfeld (left) *of Schoenfeld Industries*
les: Neither an overpricer nor an overproducer be.

By Ellen Paris

PARENTS, TAKE HEART. Seattle's Walter Schoenfeld spent 16 years after graduation from the University of Washington—where he majored in prelaw and took a B.A. in business administration—doing, he says, "nothing of substance." He sought opportunity outside his family's business. Through his private investment company, Schoenfeld got on the boards of Reading Railroad and Sunshine Mining, and generally passed the years, as he puts it, "seeing green pastures," many of them on golf courses.

But in 1968, when he was 38 years old, Walter Schoenfeld decided it was time to get serious. He went into the family business, Schoenfeld Industries Inc., at that time a $2 million (sales) manufacturer of neckties. The company was 62 years old, having been founded in 1906 by Walter's father, Max Schoenfeld, an immigrant from Mandel, Germany who had worked in a hat factory in Indiana making boxes and wrote orders for a clothing company in downtown Chicago for $4 a week.

By saving and building, Max and his two brothers moved to Seattle and went into manufacturing neckties, which were sold under Schoenfeld's own Brittania brand as well as the Austin Reed, Lanvin and Kelly One labels. It was no empire but it afforded the family a comfortable living.

Today Schoenfeld Industries is, at $300 million-plus (sales), the nation's largest privately held clothing manufacturer. Walter Schoenfeld, the admitted late starter, has made it so. Father Max, 99, who still comes to the office daily, is full of wonder and pride at the accomplishment. "My son," he says, "saw what I never would have looked to see."

What Walter Schoenfeld saw, in a 1971 sojourn in Britain, where he went intending to spread the necktie business, was the coming boom in fashion jeans. He came back to the U.S., put the Brittania name on blue jeans in 1973—especially faded jeans—and rode the boom to unprecedented success for the Schoenfeld company.

He rode the boom, it didn't ride him. Walter Schoenfeld followed two simple but timeless business principles through the height of the fashion jean craze in the Seventies, which is why today he is going beyond blue jeans into broad sportswear lines instead of going broke.

"Our Brittania jeans were so hot that we could have charged almost anything for them," says Walter, gesturing with his coffee cup, "and gotten it, too. But we didn't overprice." Instead he slotted Brittania jeans at about $18 a pair, which made them more expensive than traditional Levis, and therefore fashionable enough for snob appeal—but not nearly

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as *haute couture* as Calvin Kleins or Gloria Vanderbilts with price tags today at over $40. The highest pricer of all, the company that brought out a Charlotte Ford line at around $60, has now gone out of business. And Schoenfeld thinks other fashion jean houses will follow.

"Only a few fashion jean companies will remain," he predicts. "The market is overcrowded and overhyped. It can't continue too much longer—already it has faded. The trend will be back to basics."

So, Schoenfeld principle number one: "Give a good product for a good price and you'll survive the fads. If you charge too much, you leave an opening for the competition to come in with the same product at a lower price," as discounters are doing in jeans everywhere today.

Schoenfeld principle number two: When demand gets out of hand, don't destroy yourself grabbing for every last sale. "When there is a big demand for your product," says the soft-spoken Schoenfeld, who makes notes as he talks, "the natural temptation is to fill it. But when a young apparel company tries that, it winds up going outside to contractors to do the work and quality slips."

He knows the feeling. In 1975 Brittania moved into jeans and tops for women, and demand outran the company's ability to supply. "When everybody is yelling for your product, the marketplace seems bottomless," he says. "You start thinking, 'If I can make $2 on a pair of jeans then I can make $200 on 100 pairs, and so on.' Had we gone for that, we probably would have overextended ourselves and be dead today."

But he didn't expand rapidly. He built five jeans factories over 7 years—two in El Paso, one in Seattle, one in Ireland and another in England. The U.S. factories can be converted to Brittania's new lines of casual wear for men, women and children, while the overseas plants can supply a still-growing jeans market in Europe.

Schoenfeld thinks Brittania's European operations could double or triple over the next five years, in an atmosphere far less competitive than the one in the U.S. He sees potential also in the Far East, but concedes that he hasn't yet made the investments necessary for big operations in those huge markets. He lacks, he says, "feeling" for the area. "I should have lived in the Far East just as I did in Britain," he says, "so we'd better understand how business is done there." As a result Brittania has only a tiny share in the Far East market.

But overall, Schoenfeld is so confident of the company's position in the industry that he spends a bare $9 million on advertising, which is about 3% of sales. Schoenfeld did not even start advertising until 1978, depending on the necktie firm's longtime relationships with the

Profiles

nation's department stores to get good exposure for Brittania jeans. Now he is confident of a bright company future. "We've just scratched the surface in sportswear," he says. "We want to become a full-line company."

If Walter Schoenfeld's business principles sound like the kind of wisdom one learns over years of building a business up from nothing, they are. The man himself carries on a lot of his father's ways, but possesses his own modern flair as well. Max Schoenfeld was content with his business and his home in Seattle. Walter Schoenfeld and his wife Esther fly in the company plane to their second home in Palm Springs, Calif. after stopping by in Los Angeles to visit two of their children at UCLA. Our tastes, he says, run to champagne and hot tubs.

Walter Schoenfeld is attentive to the important "little" things of the business. Every six or eight weeks Schoenfeld Industries employees choose fellow workers to talk with Walter and his personnel director.

But Walter also cuts a wider swath in Seattle than his father ever did. He was one of the investors in the Seattle SuperSonics basketball team and one of the founding partners in the Seattle Mariners baseball team. At one time he was a general partner in the local soccer franchise. "It's been a great ego trip for me," he says, waving a hand at an office filled with autographed balls and pictures. "If you want to rub elbows with presidents and princes, sports are great."

But Schoenfeld, who has sold his soccer interest and most of his interests in both the SuperSonics and the Mariners, confesses to being bothered by the greed in pro sports. "I looked back at a letter we received from Dave Winfield, when he was entering the free-agent draft," Schoenfeld recalls. "He wanted to play only for a contending team [Seattle is not], and was asking for $13 million over ten years. Last year he hit .276 with 20 homers. That's worth $1.5 million a year? [Winfield eventually signed with the Yankees for a reported $20 million over ten years.] You know it used to be that a guy would give anything to make it to the majors. Now after two years in the majors some of these players won't walk across the street for a public appearance."

That's the same Walter Schoenfeld who says, "My father's example was the great equalizer. He used to work 60 hours a week just to make $4." Champagne? Hot tubs? Box seats at sports events? They're the surface. The instincts that prompt Walter Schoenfeld to declare, "I want this to be a great long-term company," are deeper and come from humbler, but stronger origins. ■

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AMP Incorporated

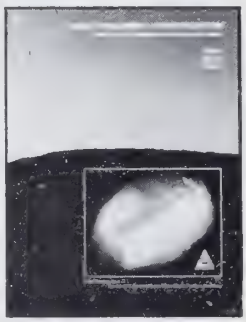
Over 15% compound annual growth rate in sales, earnings & dividends for 25 years. 1980 sales up 14%, earnings up 9%.

	Sales (Mil)	EPS	Div.*
1980	$1,155	$3.65	$1.00
1979	1,013	3.36	.76
1978	801	2.67	.60
1973	418	1.28	.24¾
1968	167	.43	.13⅓

*Increased 20% to an indicated annual rate of $1.20/share January 1981.

Broad Diversification—World's leading producer of electrical/electronic connection, switching and programming devices—70,000 types and sizes, 85,000 customers (manufacturers, distributors, retailers, utilities, transportation field, etc.). Subsidiaries and branches in 25 countries (AMP—NYSE).

1



Allis-Chalmers Corporation

A diversified, high technology, special machinery company. The Annual Report describes the *KILnGAS* system of coal gasification and other ways in which the company is moving to serve customer needs of the future in the areas of energy, food, water, environmental air and minerals. 1980 sales: $2.06 billion. Income per share: $3.60. Current quarterly dividend annualized: $2.00.

3

Alcan

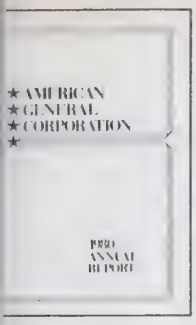
Alcan Aluminium Limited had record profits in 1980 of $542 million on revenues of $5.215 billion. Earnings increased in North America, Latin America, Africa, Asia and the South Pacific. Alcan is increasing its investment in research and development and expanding production capacity. Spending on capital projects will rise 26 percent in 1981 to $950 million.

2

American Electric Power

One of the world's leading investor-owned electric utilities, serving in the industrial heartland states of Ohio, Indiana, Michigan, Virginia, West Virginia, Kentucky and Tennessee. Last year AEP sold 111.5-billion kilowatthours of electricity, 87.5% of it generated from abundant American coal. The rest was nuclear and hydro. AEP paid a cash dividend for the 71st straight year and a higher dividend for the 28th year in a row.

4



American General Corporation

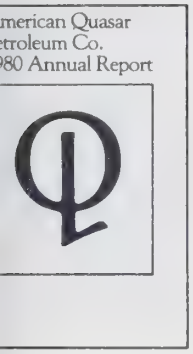
American General is the nation's 13th largest diversified financial corporation. It operates through three business divisions—life and health insurance, property-liability insurance and other financial services. The year 1980 marked the fifth consecutive year in which new highs were reported in operating results. Earnings from operations totaled $167.4 million, or $6.47 share, up from the $6.14 per share in the previous year. rican General common stock is listed on the NYSE. The ol is AGC.

5

American Medical International, Inc.

AMI (NYSE) owns, manages and develops hospitals throughout the world and provides health care services to more than 500 communities on six continents. Increased utilization of AMI facilities and services resulted in record earnings of $32.4 million or $2.12 per primary share on revenues of $661.8 million in Fiscal 1980.

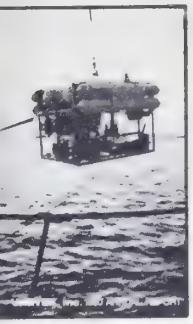
6



American Quasar Petroleum Co.

American Quasar Petroleum Co. is an aggressive oil and gas company headquartered in Fort Worth, Texas. Since formation in 1969, more than 5.2 million gross and 3 million net acres of undeveloped leases have been assembled for future exploration in the Overthrust Belt and other areas. Future net revenues from proven reserves of oil and gas have increased from $1.3 million in 1969 to more than $400 million in 1980.

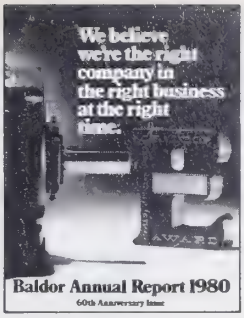
7



AMETEK, Inc.

For the first time in AMETEK's half-century history, sales topped $400 million and annual dividend payments were raised to $1.00 per share continuing a 30-year record of increases. AMETEK, manufacturer of industrial and scientific equipment and materials, spent a record $22 million on new plants, and $8 million in research, especially on a new solar electric (photovoltaic) development. For current re- call AMETEK Investor Information: (215) 647-2121. (NYSE ol—AME)

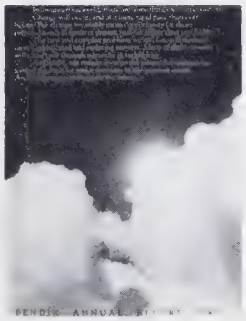
8



Baldor Electric Company

Baldor, the fastest-growing manufacturer of energy-efficient industrial electric motors, has grown twice as fast as the electric motor industry in the past 10 years. Sales have more than doubled in the past 4 years. Corporate goals include average annual growth of 16-20%, doubling of sales to over $300 million by 1985. NYSE symbol "BEZ."

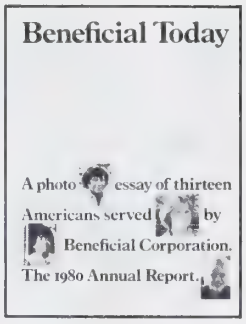
9



Bendix Corporation

1980 was another year of continued financial progress at Bendix, a major supplier of automotive, aerospace-electronics, and industrial products and services. It was the tenth successive year in which net income increased over the previous year's performance. Revenues from continuing operations rose 13.2 percent to $3.86 billion. Income from continuing operations, as restated from previously reported results to reflect the sale of an equity interest in ASARCO Incorporated, was $134.2 million. Income per share from continuing operations, as restated, amounted to $5.38. Net income per share was $7.68.

10



Beneficial Corporation

Beneficial Corporation (NYSE: BNL), a $6.0 billion Delaware-based, diversified financial services holding company. Current annual dividend, $2.00/share. 1980 Net Income: $94.0 million, EPS: $3.45. Major subsidiaries: Beneficial Finance System affiliated companies ($4.2 billion in receivables); Benico Insurance companies ($7.1 billion life insurance in force); First Texas Savings Association (2nd largest in Texas), Beneficial Income Tax Service companies; Beneficial Leasing Group; Spiegel, Inc.; Western Auto Supply Company.

11

Brush Wellman Inc.

The Company is an integrated producer of BERYLLIUM products, single crystal quartz and other engineered materials for high technology uses. Brush Wellman has achieved rapid growth over the past 10 years. Sales have a compound growth rate of over 16%, while net income and earnings per share attained compound growth rates of approximately 20%. The dividend paid has increased in each of the last five years.

12

Bucyrus-Erie Company

Bucyrus-Erie Company had net shipments of $511.3 million for 1980. Net earnings were $48.2 million or $2.36 per share. Export shipments in 1980 increased to $195.6 million from $144.9 in 1979. Backlog on December 31, 1980, was $242.1 million compared with $233.4 million on September 30, 1980.

13

CPT Corporation

CPT Corporation is one of today's fastest growing and most profitable manufacturers of word processing systems. Revenues for fiscal 1980 were $59.8 million, up 75 percent over fiscal 1979. The three-year compound revenue growth has been 66 percent. Fiscal 1980 net income was $6 million, 10.2 percent of revenue, and EPS was $1.36. CPT stock is traded national over-the-counter.

14

CSX Corporation

	1980	1979
Earnings	$281.6 million	$237.1 million
EPS	$7.13	$6.12
Total Assets	$7,523.1 billion	$7,082.0 billion

CSX Corporation is the new company created November 1, 1980, by merger of the Chessie System, Inc., and Seaboard Coast Line Industries, Inc. As the new parent company, CSX now directs the planning and sets overall policy for all of the affiliates of the former two companies. They include: The Family Lines and Chessie rail systems, Florida Publishing Company, The Greenbrier, and companies involved in aviation, minerals, coal, oil and gas development.

15

Callahan Mining Corporation

Callahan is among the nation's leading silver companies, with major interests in Idaho, including the Caladay property, where deep-shaft silver exploration is underway. The Company also explores for gold, base metals and other minerals; has natural gas and oil holdings and participates in exploration for these products; and owns The Flexaust Company, a major producer of lightweight hose and duct for industrial applications.

16

Carson Pirie Scott & Co.

Carsons is a diversified consumer oriented company with sales of $582 million in 1980. The company is a leader in regional department store retailing, airport terminal concessions, airline inflight meal service, and wholesale floor covering distribution. Carsons also owns and operates two resort/conference centers and 234 restaurants. 1981 sales are expected to be approximately $800 million.

17

Central Reserve Life Corporation

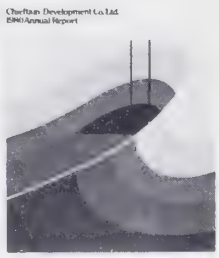
Central Reserve Life has become the "Preferred Company" through innovative insurance products offering maximum coverage at minimum cost to preferred risk groups. The Company has systematically expanded its line of preferred concept products and expanded geographically into 12 additional states. And in 1980, for the 4th consecutive year, CRL has reported record results—total premiums +31%, assets +20%, and net income +17%.

18

Chesebrough-Pond's Inc.

Chesebrough-Pond's marked its centennial in 1980 with its 25th consecutive record year. Sales rose 17.3 per cent to $1.377 billion. Net income increased 21.3 per cent to $100.2 million. Leading brand names for this diversified worldwide marketer of consumer products for the family include Ragú, Health-tex, Bass, Pond's, Vaseline, Cutex, Aviance, Chimère, Prince Matchabelli, Q-tips, Aziza and Rave.

19



Chieftain Development Co. Ltd.

Chieftain is actively exploring its extensive acreage in the United States, Alberta and the North Sea for new reserves of gas and oil. Participation in 95 wells in 1980 resulted in 41 gas wells, 4 oil wells and one heavy oil well. Total gas reserves increased 39% to 547 billion cubic feet and total oil reserves increased 326% to 3.4 million barrels. Revenue ($65.1 million), cash flow ($23.6 million) and net income ($9.5 million) reached record levels. Listed: ASE, TSE, MSE.

20

Clarion Petroleums Ltd.

Clarion Petroleums Ltd. achieved noteworthy success in oil exploration, land assembly and financing during its first full year of operation. Not only was a high ratio of successful oil wells produced by the Company's drilling, but Clarion also assembled an enviable land position, including over 800,000 net acres, both American and Canadian, across the northern Williston Basin.

21

Clark Oil & Refining Corporation

Clark Oil & Refining Corporation began the decade of the 80's with a record performance, despite turbulent industry conditions. Significant progress was made toward Clark's goals of maximum net income growth, cash flow and maintenance of a strong balance sheet. The quarterly dividend currently is $.25 a share, adjusted for 2 for 1 stock split at year-end, 1980.

22

Colt Industries Inc

Despite the impact of the recession, felt particularly in stainless and alloy steels and automotive products, Colt Industries achieved in 1980 the second highest earnings in its history. This performance is testimony to the strength of the company's earnings base and its resultant resilience during economic downturns.

23

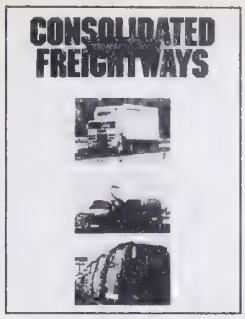
Community Psychiatric Centers

Earnings per Share

1976	1977	1978	1979	1980
$.38	$.57	$.81	$1.05	$1.28

Community Psychiatric Centers owns two separate medical service businesses: acute psychiatric hosptials which account for approximately 75% of operating profits, and artificial kidney treatment centers which account for approximately 25% of operating profits. NYSE symbol: CMY

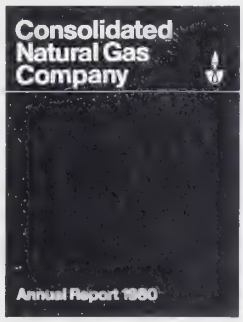
24



Consolidated Freightways, Inc.

CF Inc. operates the most extensive motor freight system in North America and provides worldwide air freight forwarding services. These services had record years in 1980, although overall earnings declined due to an operating loss in manufacturing operations. In March 1981 we agreed to sell our manufacturing assets for more than $225 million, which will support accelerated expansion of our transportation services.

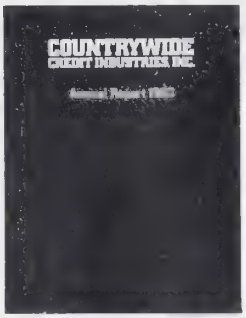
25



Consolidated Natural Gas Company

Consolidated operates one of the largest fully-integrated, natural gas systems in the U.S. Earnings of $118.5 million, or $5.73 a common share, represent the second best full-year earnings in the company's history. Increased Gulf of Mexico production contributed $1.46 a share or one quarter of the company's income. The dividend was increased to an annual rate of $3.52 a share.

26



Countrywide Credit Industries, Inc.

In 1980, Countrywide Credit Industries, a diversified financial services company, reported its 2nd highest earnings ever. Net income (unaudited) was $1,975,000 or $.58 per share versus $2,328,000 or $.71 per share (adjusted to reflect stock dividends) in 1979. CCI expanded the branch network of its mortgage banking subsidiary, Countrywide Funding, from 41 to 53 offices. In 1981, a new subsidiary, Countrywide Thrift & Loan, will begin operations in California, expanding the scope of Countrywide's financial services. NASDAQ: CCII

27

Cronus Industries, Inc.

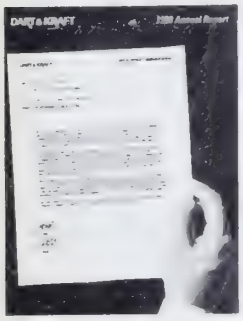
Cronus Industries (OTC—CRNS) manufactures and markets products for three industry segments—pre-engineered metal buildings for non-residential construction, agricultural equipment and heat transfer equipment for electric power utilities. During 1980, continued expansion, via acquisition, allowed the metal buildings segment to become a nationwide competitive force. A modest consolidated sales gain, rearranged financial structure and departure from an unprofitable line of business position this four-year old concern for further growth.

28

Crum and Forster

Crum and Forster is an insurance holding company with total premiums exceeding $2.3 billion (net premiums written of $1.7 billion) and assets over $3.9 billion in 1980. C&F concentrates its activity in commercial property-liability insurance, in which it ranked fifteenth among the 2,000 active U.S. companies last year. The company's high rate of earnings and dividend growth enabled it to rank first among the *Fortune* magazine "50 Largest Diversified Financial Companies" in total return to stockholders over the last ten years.

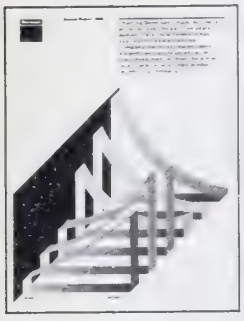
29



Dart & Kraft, Inc.

Dart & Kraft, Inc., formed through the September 1980 merger of Dart Industries and Kraft, is a leading diversified company with a strong consumer orientation. Earnings have grown consistently over the last five years at a 12 percent average annual rate. 1980 net income was $383 million or $7.03 per share. Sales were $9.4 billion. The company's major businesses, including KRAFT food products; TUPPERWARE quality, plastic food containers; DURACELL high-performance batteries; and HOBART commercial food equipment and KITCHENAID appliances; have leading positions in markets that are growing faster than industry norms.

30



Dennison Manufacturing Company

Dennison serves four areas—Retail Systems, Stationery Products and Systems, Technical Papers, Industrial Systems. The Company focuses on market needs and has established a leadership position based on constant attention to new technologies. Sales for 1980 increased 10% to a record $492,414,000 and earnings, while declining 8% from 1979, were still the second highest in history. A 12% increase, effective March 1981, was the tenth consecutive annual dividend increase.

31

Digicon Inc.

Digicon is an international geophysical services company providing seismic data collection and processing services and specialized geophysical data processing systems for use by the petroleum industry in its search for new oil and gas reserves. As a part of its oil service activities, the company packages and supplies compression and other equipment for use in oil and gas production, offers tug/supply services to the offshore drilling industry and manufactures marine geophysical cable. The company also develops, produces and markets computer peripherals and interfaces and specialized medical instrumentation and test procedures.

32

Duro-Test Corporatior

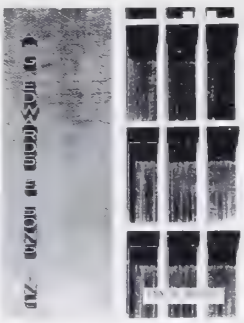
America's largest company exclusi in the business of manufacturing marketing light sources for comr cial, industrial, institutional and r dential use. Products range from inc descent, fluorescent and mercury va lamps which include Vita-Lite®, only sunlight simulating fluoresc Watt-Saver® fluorescents and candescents that conserve electri energy while maintaining light outp industry's largest selection of decorative bulbs, self-ballasted Fl meric® and Safe-T-Vapor® high intensity lamps and 32,000-w xenon lamps being used in space research. Sales and earnings a time high. Unbroken record of dividends since 1942.

Eaton Corporation

Eaton serves worldwide industrial transportation markets. In 1980, company continued its move towa more technologically-advanced faster-growth markets. Eaton's elec cal, electronic and mechanical cap equipment businesses, which are rected towards productivity impro ment, performed well despite the e nomic slowdown. During 1980, rec levels of R & D spending and cap investment were achieved as the company prepared for the opp tunities of the 1980s. Sales in 1980 were $3.2 billion, while income was $115.8 million, or $4.35 a share. Dividend payout $1.72 a share.

EDO Corporation

EDO produces electronic and speci ized equipment for military, gene aviation, marine and industrial m kets. Principal products: sonar equ ment, mine countermeasure syster aircraft stores ejection mechanist flight instruments, control systems general aviation; piezoelectric cerar components, acoustic and video sc ning systems; fiber-reinforced comp ite components for aircraft. Mark worldwide. $97-million sales produced $2.5-million net earnings 1980. EPS: $1.08; $.40 Div. (ASE)



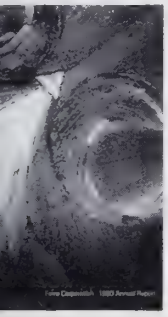
A.G. Edwards & Sons, Inc.

A.G. Edwards is a 94-year-old Louis-based securities firm with o 175 locations in 35 states. For fis year ended February 28, 1981 earni were $23 million on revenues of $1 million. Stockholders' equity excee $74 million and total capital $99 m lion. Edwards common shares are li ed on the New York Stock Exchan

Evans Products Company

Evans Products Company's two major businesses are building materials retailing and full-service leasing of transportation equipment. Evans has attained a major national reputation in these growing businesses, which account for 80% of the Company's total operating earnings. Other activities include marketing custom-built homes and manufacturing building products ecialty metal components. By 1985, Evans expects to double 9 record earnings. The annual report presents strategies for ing this growth. (EVY) NYSE

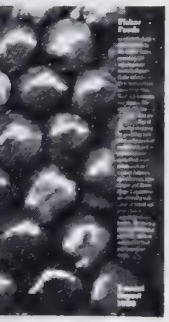
37



Ferro Corporation

A diversified worldwide company and a leader in the development and production of specialty materials, Ferro has been expanding in products and facilities to meet growing needs of established markets and to serve an important group of new ones. Net sales in 1980 topped $695 million, and earnings were $3.77 per share.

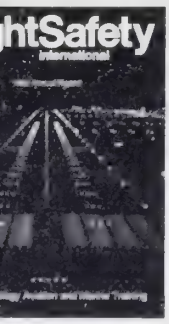
38



Fisher Foods, Inc.

Fisher Foods, Inc. (NYSE-FHR) is one of the largest food retailers in the United States, operating 140 supermarkets located primarily in the suburbs of their metropolitan markets in Illinois, Ohio and Northern Kentucky. The stores are notable for their range of specialized departments, such as in-store bakeries, delicatessens, wine, cheese and flower shops. Earnings in 1980 were $6.7 million or $1.05 per share on sales of $1.4 billion.

39



FlightSafety International, Inc.

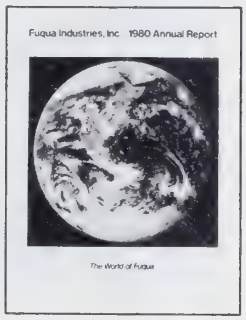
Earnings and revenues continued at record levels for FlightSafety International (FSI-NYSE) in 1980. Clients served by this leading high technology aviation and marine training company rose to more than 1,600. Adjusted for a three-for-two stock split in May, 1980, earnings increased 50 per cent to $13,884,800, or $1.43 per share, from $9,270,600, or 96 cents per share in 1980 revenues rose 23 per cent to $53,839,200 from 1,300 in 1979.

40

Fort Howard Paper Company

Fort Howard Paper Company Had Another Record Year! Continuing a long record of solid growth: *Sales were up 16% to $397.4 million *Earnings increased 15% to $68.7 million—a 17.3% return on sales *Dividends increased 20%, and the annualized rate 33%, to 88 cents per share *A major capacity addition is scheduled for completion in mid-1981. Fort Howard (NYSE–FHP) manufactures a wide range of disposable paper products for the industrial, institutional, commercial and retail markets.

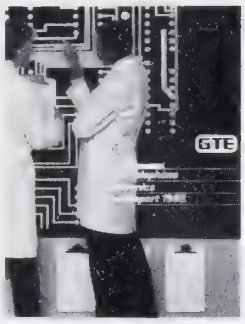
41



Fuqua Industries, Inc.

Fuqua Industries, Inc. (FQA) is a multi-market manufacturing, distribution and service company with $1.6 billion in sales. Fuqua's four areas of business are: Recreational Products and Services, Farm and Home Products, Petroleum and Industrial.
Sales: $1.6 billion
Net Income: $65 million
Earnings Per Share: $2.34
(continuing operations)

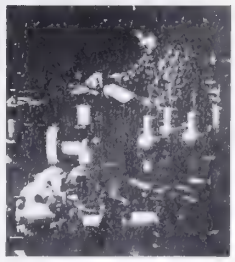
42



GTE

GTE operates world-wide through 4 major components: GTE Telephone Operations (largest Independent telephone system in the U.S.); GTE Communications Products; GTE Telenet and GTE Electrical Products. In 1980, revenues and sales totaled over $9.9 billion, 12% over 1979. After 4 consecutive years of increased earnings, 1980 earnings per share from continuing operations were $3.87 against $4.28 in 1979, reflecting adverse economic conditions and record high interest rates: however, fourth quarter earnings were improved. The annual dividend rate at year end was $2.72, having increased at a 9.3% average annual rate since 1975.

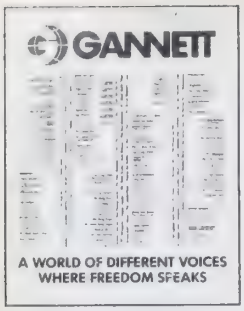
43



Galveston-Houston Company

Galveston-Houston Company and its subsidiaries manufacture and market products and furnish services for the drilling and workover of oil and gas wells, for oil and gas production, pipeline and processing operations, and for the mining and construction industries. In 1980, net revenues climbed to $145,916,000, a 32 percent increase over 1979, and net earnings rose 73 percent to $10,582,000. NYSE symbol: GHX.

44



Gannett Co., Inc.

In 1980, Gannett, a nationwide diversified information company, completed 13 years of public ownership and 53 consecutive quarters of revenue and earnings gains. Revenues rose 14% to $1.2 billion and net income rose 13% to $151 million. Gannett is the most diversified information group in the country—81 daily newspapers (and agreement to acquire two more) with a total circulation of 3.6 million, seven television and 13 radio stations, the largest outdoor advertising group in the U.S. and Canada, as well as news, research, marketing, film and video production and satellite information services in 35 states, two U.S. territories and Canada.

45

Gearhart Industries, Inc.

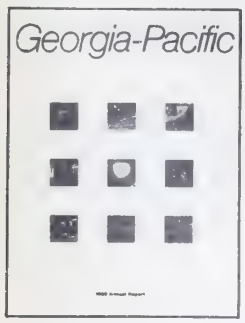
Gearhart Industries, Inc. reports another record year of sales and earnings in their wireline servicing of oil and gas wells. The application of advanced technology and entry into new market areas of well servicing continues to be Gearhart's answer to the demands of the dynamic petroleum industry.

46

Genstar Limited

In 1980, Genstar reported record earnings for the 10th straight year, and revenues passed the $2-billion mark following acquisition of Flintkote. Over the past decade, revenues and net income per common share have each risen at a compound annual rate of 30%. Dividends have increased every year since 1970. In high-growth areas of North America, Genstar is a leader in building materials, real estate development, financial and marine services. (NYSE—GST)

47



Georgia-Pacific

Georgia-Pacific came through the 1980 recession in excellent position to take advantage of growth opportunities to come in this decade. Although earnings were down in our paper and building products divisions, our chemical business turned in its best year ever. During 1980, we further integrated and expanded our overall production capacity by developing new building products to complement our existing plywood business. We also continued to invest heavily in our pulp and paper and chemical capabilities, and increased oil and natural gas exploration.

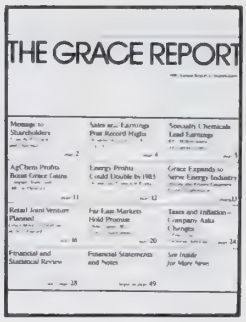
48

Golden Triangle Roya & Oil, Inc.

Golden Triangle Royalty & Oil C pany, Inc., has overriding royalties net profits interest in substantial age in Australia, with expectatior their being developed for oil and GTRO also holds interests in 60 and gas wells in Kansas, Texas, Australia, with high percentage creases in production in 1980.

Gould Inc.

Gould's strategy for the Eighties i increase its concentration in the f of electronics. It will focus on major growth areas: factory auto tion, test and measurement eq ment, medical instrumentation, un sea defense and advanced compon and materials. A heavy emphasis be placed on R&D and continued and improved product introducti Capital spending will be increase meet the growing demands of the marketplace.



W.R. Grace & Co.

Forbes? Business Week? No! It's Grace Annual in a new style. Re 1980 sales (up 15% to $6.1 billion) earnings up 24% to $284 million. S cialty Chemicals strong, Agricult Chemicals operating income 157%, and Natural Resources earni were up 52%. All this and our ne magazine format makes the Re more readable than ever. Our 70, shareholders are glad they looked Grace. Shouldn't you?

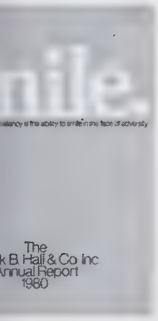
Grow Group, Inc.

The nation's sixth largest produce chemical coatings, Grow Group, has also developed two patented cesses unrelated to coatings: • Envi Spray™—a revolutionary technol designed to replace hydrocarbon pellants in the aerosol indust • Thermaljet™—an advanced comm cial food processor. Since 1961, Gr has increased revenues from $10 m lion to over $225 million, and paid consecutive quarterly cash dividends and over 132% in st dividends.

Gulf Energy Corporation

Gulf Energy Corporation (NASDAQ symbol GFEC) has had significant increases in revenue and net income over the past five years. The Company has oil and/or gas production in six states. Additional exploration and development activities are scheduled in most of these states, as well as five other states. Gulf Energy also operates two coal mines in Logan County, West Virginia.

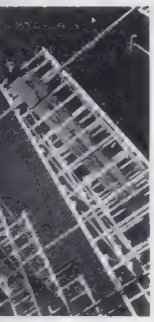
53



Frank B. Hall & Co. Inc.

A leading international insurance services firm, Frank B. Hall revenues in 1980 increased 16% to $309,593,000, net income rose 1% to $27,982,000, per share earnings decreased 3% to $2.74. Revenues and earnings per share have more than doubled during the last 5 years. Since 1974 dividends have increased at a compound annual rate of 20%. Currently the Company pays nual dividend. NYSE symbol FBH. Order the Frank B. Hall nd SMILE.

54



Harsco Corporation

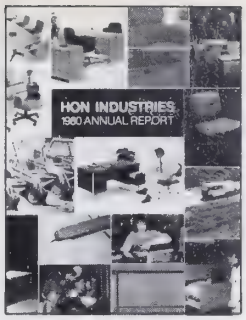
Harsco has 22 classes of products and services with operations in four industry segments: Primary Metals, Fabricated Metals, Construction and Defense. In 1980 sales were $1.06 billion, up 12% over 1979. Net income was $49.7 million or $4.94 per share. Harsco had a record fourth quarter in sales and earnings. The NYSE symbol is HSC, and the dividend was raised again to $2.10 per share.

55

The Heritage Foundation

The Heritage Foundation is a Washington-based public policy think tank with offices on Capitol Hill. Each year Heritage publishes more than 100 research papers stressing free enterprise policy options, and ways to strengthen the nation's defenses. Recent major publications include the widely discussed *Mandate for Leadership* and *Agenda for Progress*—unofficial "blueprints" for the Reagan Administration.

56



HON INDUSTRIES

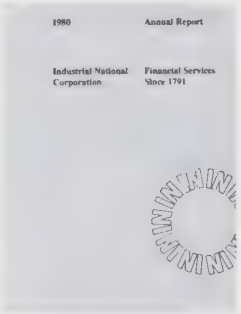
Record sales of $201.9 million, up 1.5%, in 1980. Net income, $15.2 million, second highest in company history. Profitability level 7.5% of sales. Dividends paid 103 consecutive quarters. Acquired in 1980: Hiebert, Inc., Carson, Calif.; Oakes Mfg. Inc., Oakes, North Dakota. HON ranks as one of largest U.S. manufacturers of office furniture, added volume in materials handling equipment. Traded OTC—HONI.

57

INA Corporation

INA Corporation, founded in 1792, has worldwide operations in property-casualty insurance, life insurance, health care and investment management. In 1980, net operating income increased 14% to a record $293 million, or $7.11 per share, for a 16.5% return on equity. Cash dividends paid increased 14% to $2.20 per share. The current annual rate is $2.40 per share. Year-end equity was $1.8 billion, or $46.20 per share.

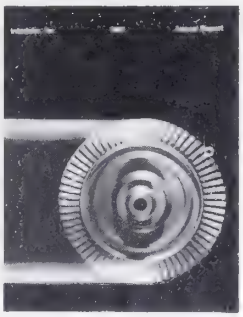
58



Industrial National Corporation

Industrial National Corporation (NYSE-INB), a $3.5 billion diversified financial services company, operates one of New England's largest banks, plus mortgage servicing, consumer finance, leasing and factoring companies in over 200 offices in 23 states and four foreign locations. This geographic diversity coupled with our outstanding performance have strategically positioned us to take advantage of the changing financial services business of the future.

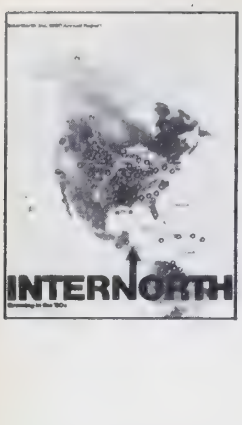
59



Interlake, Inc.

This international metals and material handling company had one of its best years in 1980 as sales again reached a billion dollars. Operating income of $38.5 million or, $6.39 a share, was only 4% short of 79's record high. Net income was $13.8 million, or $2.29 a share, including a $4.10 per share pretax provision for shut-down of two steel plants. The dividend was $2.20 for the fourth year in a row.

60



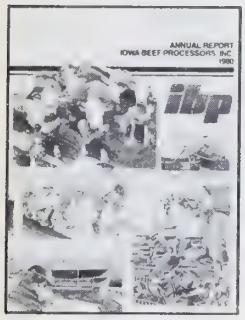
InterNorth, Inc.

Our 1980 annual report is the story of record operating revenues of $3,037,764,000, 22% higher than in 1979; record net income of $211,722,000, 14% higher than in 1979, and record earnings of $4.70 per share, 15% over the 1979 record. International headquarters: Omaha, Nebraska 68102.

61

Ivaco Inc.

Ivaco is an integrated steel produ with rolling capacity in excess of million tons and steelmaking capac of over one million tons. The st making and rolling mill facilities located at Atlanta and Cartersvi Georgia and L'Orignal, Ontario. Iv produces wire rods, flats, angles, b and structural shapes and has la scale downstream manufacturing cilities which produce wire, fenci welded wire fabric, nails and fasteners. It also produces steel tub wire ropes and cables, pre-engineered steel buildings, forgin precision machined components and paper machine clothing use by paper manufacturers.



Iowa Beef Processors, Inc.

Earnings per share increased for the tenth consecutive year in 1980. First Quarter 1981 indicates another good earnings year.

	Sales (Mil.)	E.P.S.	Div.
1980	$4,639	$5.17	60¢
1979	$4,216	$4.28	52¢
1978	$2,968	$3.46	26¢
1977	$2,023	$3.14	25¢
1976	$2,077	$3.09	20¢

Nation's leading beef packer-processor operates ten beef plants and one pork plant. Markets fresh beef nationwide as boxed beef or as carcasses. Markets variety meats and by-products, including hides, worldwide. (NYSE-IBP)

62

JWT Group, Inc.

JWT Group, Inc. is the parent o number of diversified communicati companies engaged in advertisi public relations, and other related vices. Subsidiaries J. Walter Thomp Company in advertising and Hill Knowlton, Inc. in public relations world leaders. JWT Group revenues, 33% to $352 million in 1980, h more than doubled since 1976; ea ings, up 23% to $16.8 million last y have tripled in that time. Dividends, increased annually for past five years, have grown by 318%.

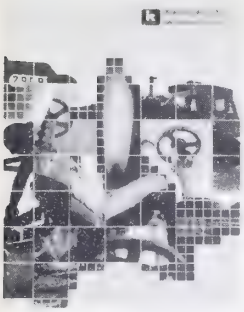
Iowa Electric Light and Power Company

Iowa Electric Light and Power Company serves diversified manufacturing, agricultural areas and consumers. Earnings grew 10.6% in 1980 to $22.9 million or $2.07 per share, from $20.7 million or $2.06 per share in 1979. Revenues increased $23.8 million to $313.6 million. Net income available for common stock was $17.8 million. Annual common share dividend rate $1.66 as of February 1981.

63

Jannock Limited

Jannock Limited manufactures markets clay and concrete br throughout the mid-western sta Texas and central Canada. Annual pacity is 600,000,000 units. Jann also fabricates and distributes a w range of steel products in Cana Sales of $520,000,000 and net earni of $22.4 million rank it among the largest corporations in Canada.



Iowa Resources Inc.

Revenues surpassed $297 million in 1980. Earnings for the year were $3.42 per common share. Dividends have been increased to the annual rate of $2.72 per share, formerly $2.52. Iowa Power, the principal operating subsidiary, serves 229,845 electric and 133,005 gas customers in a 5,600 square mile area of central and southwestern Iowa.

64

Joy Manufacturing Company

Joy is a leading manufacturer of cap goods and process systems for c mining, air pollution, petroleum, processing, air power and general dustrial markets. Record levels of sa net earnings and new orders w achieved in 1980. Continued str growth is expected as the demand cost-efficient energy accelerates o world-wide basis. NYSE symbol: J

Kidde, Inc.

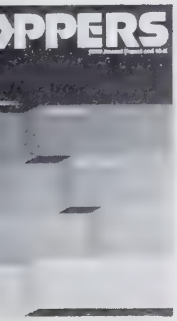
In 1980, Kidde completed a decade of growth with another year of record sales ($2.5 billion), net income ($87.4 million) and earnings per share ($7.41 fully diluted). Products from Kidde's leadership divisions include: Grove mobile hydraulic cranes, Farberware cookware, Jacuzzi water systems, Sargent locks, Kidde and Fenwal fire protection systems, and Victor desk-top calculators.

69

Knight-Ridder Newspapers, Inc.

Knight-Ridder Newspapers, Inc. is a nationwide communications company engaged in newspaper publishing, television broadcasting, electronic distribution of commodity and financial news, newsprint production, book publishing and selected computerized information retrieval services. Continuing growth, acquisitions and diversification carried Knight-Ridder gross revenues over the $1 billion mark in 1980.

70



Koppers Company, Inc.

This highly diversified industrial manufacturing and construction firm has aggressively expanded its operating base; acquired substantial natural resource capabilities in coal and stone; developed synthetic fuels capabilities; and initiated research ventures in genetic engineering and fiber optics. With strong finances, management depth and diverse products and services—Koppers is poised for dramatic growth in the 1980s.

71

Lifemark Corporation

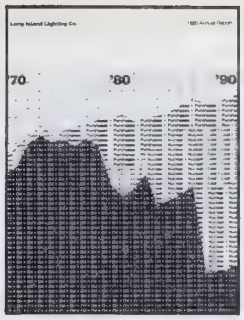
(In thousands, except per share amounts)

	1980	1979	Increase
Revenues*	$202,540	$146,167	39%
Net Income*	$ 10,062	$ 5,968	69%
EPS*	$ 1.90	$ 1.32	44%

*From continuing operations

Lifemark's primary business is the ownership and operation of general acute care hosptials. The Company is also engaged in contract ancillary services for hospitals and dental services. During the past five years, Lifemark's revenues, come and earnings per share (all from continuing operations) grown at compounded annual rates of 27%, 51% and 42% tively.

72



Long Island Lighting Co.

LILCO's annual common stock dividend rate has been increased in 21 of the last 22 years. More than 160,000 holders of Common Stock are currently receiving an annual dividend of $1.86. The Company estimates that 100% of the 1980 stock dividends represented a return of capital and, therefore, may not be taxable as ordinary income. Common shareowners can reinvest their dividends automatically to purchase additional common stock at a 5% discount. LILCO supplies electricity and gas to 2.7 million people, a population greater than that in each of 21 states.

73

Marion Corporation

Marion's operations cover the drilling, exploration, production and refining of oil and natural gas as well as the export of utility-grade steam coal. Recent highlights include record fiscal 1981 revenues of $461 million and e.p.s. of $2.09, adjusted for the 3-for-2 stock split in January. Earnings have now grown at a compound rate of 32% over the past five years. (OTC-MARN)

74

Masco Corporation

TWO DECADES OF GROWTH . . . Masco manufactures faucets and other residential and home improvement products; energy-related and other specialty products; and cold extruded and other components for industry. Send for our 1980 Annual Report: to learn more about the company; how it has achieved 24 consecutive years of growth; and how we believe Masco's sales, from internal growth alone, will double over the next five years.

75

Matrix Corporation

($ in thousands)

	1980	1979	1978	1977	1976
Sales	$19,571	$13,947	$5,736	$3,750	$3,009
Net Income	$ 1,858	$ 1,165	$ 180	$ 86	$ (98)
EPS	$ .97	$ .77	$ .18	$ .13	$ (.15)

Manufacturer of Medical Diagnostic Imaging Systems for computerized tomography, ultrasound, nuclear cameras, digital radiography, fluoroscopy, nuclear magnetic resonance, et al. Manufacturer of Computer Color Graphic Camera Systems for CAD/CAM management information, satellite photography, animation films, oil exploration, etc. ASE: MAX. Reports: Merrill Lynch, Oppenheimer, Eberstadt.

76

MEGA

Media General, Inc.

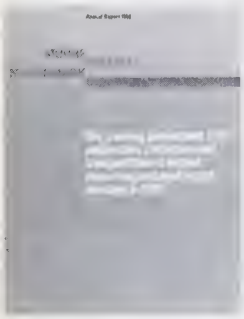
Media General is a diversified communications company with newspaper, broadcast and related operations. Using a unique recycling process, its newsprint subsidiary produces about 13% of the newsprint manufactured in the United States. In 1981, revenue and earnings per share increased 18.5% and 14.3% respectively. Over the past five years, revenue and earnings per share have grown 13.7% and 15.2% annually. AMEX Symbol:

77

The L. E. Myers Co. Group

The nation's largest installer of tra mission and distribution systems electric utilities. Benefiting from ma western energy projects and ris spending by utilities to upgrade th grid systems to become more efficie Revenues in 1980 were $190 mill and domestic backlog at record le Dividend increased for third succ sive year in February 1981 to 17½¢ share quarterly.

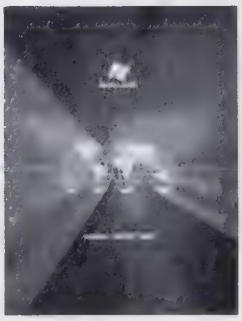
8



Moore McCormack Resources, Inc.

Our cover says it all: "Our growing involvement in the exploration, production and transportation of natural resources produced record earnings in 1980." Profits of $8.25 per share topped 1979's record by 16 percent. Our growth was broad-based, with cement, oil and gas, cargo liner, bulk transportation, coal and iron ore operations all contributing to our earnings picture.

78



Nalco Chemical Company

As the world's largest water treatm chemicals and technology suppl Nalco announced record sales of $61 million. Net earnings were $72.3 m lion or $3.61 per share. Return equity has averaged over 20% si 1963. Growth prospects are excell as industry strives to conserve wa and energy, reduce operating expens keep equipment on-line and impr end product quality through Nalco programs. Expanded mana ment structure concentrates company efforts on existing emerging markets.

8

Moran Energy Inc.

A rapidly growing domestic energy company with operations in oil and gas exploration and production as well as onshore and offshore contract drilling, Moran's earnings in 1980 increased 210% to $12.2 million on revenues of $67.1 million.

79

National Distillers & Chemical Corporation

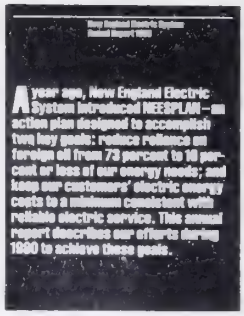
A leader in petrochemicals, oleoche cals, liquor, wines and metals, ND experienced a satisfactory year 1980. After charges equal to 87 cent share resulting from shutdown of Bridgeport brass mill and loss on sale of Beacon Manufacturing, ND reported net income of $103.3 mill or $2.96 a share and sales of $2. billion. Chemicals, liquor, wine associated companies operations all showed increased earnin The common dividend was increased for the eighth time in se years to $2.20 annual rate. NYSE symbol is DR.

8

Morrison-Knudsen Company, Inc.

Net income of Morrison-Knudsen has increased at an average annual rate of 21% since 1971, reaching $30.6-million or $3.50 per share in 1980. "M-K" provides worldwide engineering, construction and project management services, in addition to building commercial and Naval ships, developing commercial real estate and mining coal on a contract basis. Contract backlog at 1981 yearend was $2.6-billion. (NYSE–MRN)

80



New England Electric System

Dividends have been increased 6 tin in the last 5 years by this uni electric utility holding company. NE is expanding its oil and gas explorat operations and implementing a ma coal conversion program. In additi we have developed NEESPLAN blueprint for the energy future signed to reduce foreign oil use to percent of our energy needs and keep customers' costs to a minimu

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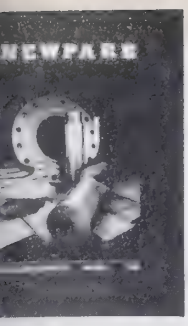


Newpark Resources, Inc.

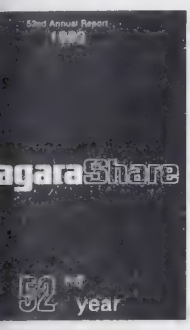
Results:

	1980	1979
(000 omitted except per share amts)		
Revenues	$186,000	$117,221
Net Earnings	12,041	6,240
E.P.S.*	1.11	.68
Average Shares Outst.*	10,872	9,234

*Fully diluted and adjusted for 2-for-1 split on 10/15/80.

Business: Provides services and products used in oil and gas exploration and production, including preparation of ng sites, sale and rental of downhole tools, sale of tubular lies, and production and distribution of drilling fluids.
ed: NYSE under ticker symbol "NP."

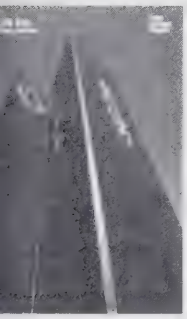
85



Niagara Share Corporation

A diversified publicly traded investment company whose primary objective is growth of capital from investments in domestic and foreign corporations. Superior long-term record. Directly managed by its officers and directors, who are substantial shareholders. Shares are eligible for Keogh and Individual Retirement Trusts. 52nd Annual Report includes invest- policy, distribution options and investment results. Listed YSE.

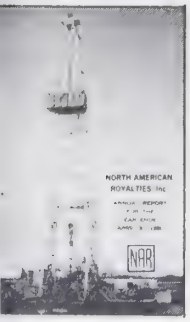
86



NICOR Inc.

NICOR engages in oil/gas exploration, development and contract drilling; inland barging; operation of offshore service vessels; marine repairs; development and mining of coal and other mineral reserves; gas distribution; and other energy activities. Net income rose 16% to $101.4 million on revenues of $1.7 billion in 1980. Earnings per share were $5.00. May 1, 1981 quarterly dividend increased 6% to 71¢ per share. NYSE: GAS

87



North American Royalties, Inc.

With Oil and Gas Division nine-month revenues and operating income exceeding those of the entire 1980 fiscal year, this 115-year-old company achieved significant increases for the three quarters ended Jan. 31, 1981. In addition to oil and gas exploration the company manufactures grey iron castings, principally for the automotive industry. Net income for fiscal 1980: million, or $2.51 per common share, on sales and revenues of million. Listed on the American Stock Exchange and the c Stock Exchange. Symbol: NAR.

88

Northwest Energy Company

Year Ended December 31, 1980

Operating Revenues	Net Income	Per Share
$1.3 billion	$51,300,000	$3.23

Northwest Energy Company, through subsidiaries, supplies natural gas to seven western states, is operating partner for the group which will construct the Alaskan section of the Alaska Highway Pipeline Project, seeks to develop Rocky Mountain natural gas and oil reserves and operates an underground coal mine in Colorado.

89

Numac Oil & Gas Ltd.

An independent oil and gas exploration company operating primarily in Western Canada and also in the United States. In addition, has significant interests in the rich Midwest Lake uranium discovery in Saskatchewan, the 20-billion barrel Surmont heavy oil property in Alberta and in the Mackenzie Delta. The Company is also involved, to a lesser extent, in oilfield construction, real estate and minerals exploration.

90

Ohio-Sealy Mattress Manufacturing Co.

Ohio-Sealy Mattress Manufacturing Co., one of Forbes' "up-and-comers," has a strong record of sales and earnings growth and a 10-year compounded annual dividend growth rate of 33.5 percent—14 dividend increases in 11 years. 1980 sales were a record $52 million, net earnings were 8.2 percent of sales. First quarter 1981 sales rose 25 percent, net earnings 60 percent, earnings per share 82 percent.

91

Overseas Shipholding Group, Inc.

OSG is the only publicly owned company engaged exclusively in bulk shipping in both the U.S. and worldwide markets. In 1980, the company's net income exceeded $79 million. Since 1971, with continuing emphasis on medium - long-term chartering, OSG's fleet has increased from 1.1 million to over 5.9 million deadweight tons. During this period, per share earnings have grown at a compounded annual rate in excess of 20%. OSG's strong financial condition and market prospects are detailed in the 1980 Annual Report. (NYSE, PSE: OSG)

92

Pacific Power & Light Company

Revenues from electric, coal and telephone operations were $975,433,000, up 25.6%; Net income—$133,866,000, up 19%; Earnings per Share—$2.53, up 7¢; Dividends—$2.04 per share, up 9¢. Subsidiaries contributed 40% of operating income.

93

Panhandle Eastern Pipe Line Company

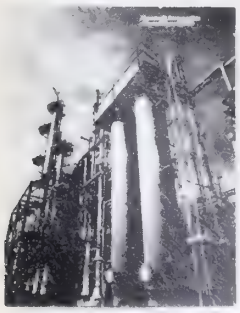
Panhandle Eastern in 1980. Record levels of net income and earnings per share made 1980 a banner year for Panhandle Eastern, a diversified energy company engaged in natural gas transmission, oil and gas exploration and production, contract well drilling and coal mining. Net income was up 24 percent and has grown at a compound rate of 22 percent over the last five years. Consolidated capital expenditures are budgeted at more than $800 Million, the highest in the Company's history.

94

Pennsylvania Power & Light Company

Pennsylvania Power & Light Company (PP&L) supplies electricity to about 1 million homes and businesses over a 10,000-square-mile area in central eastern Pennsylvania. PP&L has a strong generating capacity and fuel position. It is a net supplier to the PJM Interconnection, one of the world's largest power pools. Quarterly dividends on common stock were increased from 53 cents to 56 cents beginning with the April 1, 1981, dividend.

95



Pennwalt Corporation

Pennwalt Corporation, headquartered in Philadelphia, is a diversified, worldwide manufacturer of chemicals, health products (pharmaceutical and dental) and specialized precision equipment. The company's pharmaceutical business includes such consumer products as Desenex® athlete's foot medication, Allerest® hay fever remedy and Sinarest® sinus headache medicine. Earnings in 1980 were $4.20 per share on sales of $1.2 billion. The annual dividend rate is $2.20 per share. Pennwalt has paid regular dividends on its common stock since 1863, the second longest dividend-paying record of any industrial company on the New York Stock Exchange.

96

Penril Corp.

Penril Corp., headquartered in Ro ville, Md., manufactures high techn ogy electronic and consumer au equipment at profit centers in 5 st and Switzerland. Record 1980 earni were $1.35/share (1,324,884 weigh average shares), $1,783,405, compa to $1.10/share, $1,453,169 in 19 1980 revenue of $33,333,828 increa 47% from $22,691,797 in 1979. Fi 1981 first six month revenue and earnings were up, compared to the first half of fiscal 1980, wit current annualized revenue rate approaching $40 million. C dividends have been paid for 6 consecutive years and the 1 yield increased 20% over 1979.

Peoples Energy Corporation

Diversified Chicago-based energy co pany with subsidiaries engaged in n ural gas transmission and distributi oil and gas exploration and devel ment, contract drilling, and coal m ing and marketing. Total assets of $ billion. Cash dividends paid each c secutive quarter since 1939. Curr annual rate $3.08. Listed New Y and Midwest Exchanges. Ticker sy bol: PGL.

Perry Drug Stores, In

Net earnings in first fiscal 1981 quar ended Jan. 31 were $1,623,000, up 4 on a sales increase of 49%. Four a lysts have estimated total 1981 ea ings in a $1.85 to $2.15 per sh range. We earned $1.51 per share 1980. Perry has retail operations Michigan, Metropolitan Chicago, I nois, Nebraska, Oklahoma and Tex The present total of 98 units is up fr 66 a year ago.

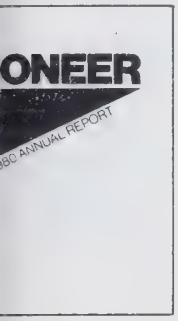
Where big investors congregate

The corporate stockholdings of the avera Forbes subscriber is $386,540. People wi portfolios of that size are getting something o of Forbes that they get nowhere else. A reque for several of these annual reports could b helpful to you, if you'd like to number yourse among these affluent readers.

Phoenix Resources Company

Phoenix Resources Company explores for and produces natural gas and crude oil. Phoenix, headquartered in Oklahoma City, conducts operations in 16 states, four Canadian provinces, the Canadian Arctic, Egypt, and the Netherlands North Sea. Phoenix Resources Company's stock is traded on the National Over-the-Counter market, NASDAQ symbol PHRCB.

100



Pioneer Corporation

Pioneer is a diversified, energy-oriented Corporation with 1980 record revenues of $912 million. Earnings per share rose 36.3% to reach $2.44, adjusted for the December 1980 stock split. In addition to a utility division, subsidiaries produce oil and gas, uranium, and natural gas liquids. Others perform contract drilling, oil field equipment manufacture and sales, and heavy construction equipment sales. (NYSE symbol: PNA)

101

Premier Industrial Corporation

Record earnings posted in 1980 for 12th straight year:

- Earnings per share up 47% on 23% gain in operating revenues
- Return on equity hits 30.5%

Financial strength a Premier hallmark:

- Working capital up 30%
- Current ratio 3.5 to 1
- Seven dividend increases since 1975

Premier (NYSE: PRE) develops and dis- s repair and maintenance products for the electronics, rial and fire-fighting markets.

102

Prime Computer, Inc.

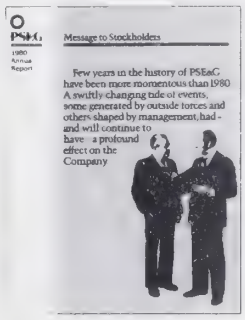
Prime Computer grew 75% last year, achieving sales of $268 million. Net income was $32 million, almost double the previous year, while return on stockholders' average equity topped 35% for the fourth consecutive year. Prime's six year compounded annual rate of growth in sales has been 88%. Prime Computer manufactures, sells and services general purpose computer systems for principal world markets.

103

Public Service Company of New Mexico

PNM provides electric service to about ½ of New Mexico's population. Comparing 1980 to 1979, electric sales increased 8.9%; total operating revenues rose 14.8% to $280,516,000; earnings per share increased 13.1% to $3.36; and generation was 84% coal fired. Fourth quarter 1980 dividends increased 29% above the third quarter. ROE for 1980 was 14.9%. A dividend reinvestment program is available.

104



Public Service Electric and Gas Company

The nation's third largest combination electric and gas utility, serving approximately 75% of the population in New Jersey. Assets exceed $6.7 billion. Over 231,000 common stockholders are currently receiving dividends at the rate of $2.44 per share annually. PSE&G has paid dividends continuously since 1907.

105

Puget Sound Power & Light Company

Puget Sound Power & Light Company is a principally hydro-based electric utility serving an area of more than 1.3 million people in western Washington State, primarily in the Puget Sound region. Puget Power has paid regular quarterly cash dividends on its common stock since 1943.

106

Raymond International Inc.

A leading worldwide engineering and construction company that has projects underway in 39 countries. The company's activities include design, engineering and construction services, the installation of foundations, marine heavy construction, and the fabrication and installation of offshore production platforms. In 1980, Raymond had revenues of $653 million and earned over $6 million. NYSE Symbol: RII.

107

R.J. Reynolds Industries, Inc.

Revenues in 1980 of $10.35 billion, net earnings of $670.4 million, and earnings per share of $6.12 marked the 11th consecutive record year since the formation of R.J. Reynolds Industries in 1970. The dividend rate was increased to $2.40. In the past 5 years, sales and revenues have increased at a 16% compound rate, while net earnings have risen 15% compounded, and return on average common stockholders' equity has averaged 18.4%. R.J. Reynolds is an international corporation with major interests in tobacco, energy, food and shipping. NYSE trading symbol: RJR.

108

St. Regis

Record net earnings of $170.5 million were achieved by St. Regis on revenues of $2.8 billion in 1980, a year of testing economic conditions. Dividends on the common stock were raised for the eighth consecutive year, and good progress was made on the current major expansion program in printing paper, kraft paper, and newsprint. St. Regis is an integrated forest-based products enterprise, international in scope, which owns or controls 5.97 million acres of timberland in North America.

109

Salem Corporation

Salem Corporation designs, engineers and installs capital equipment for the metals, carbon, coal, coke and related industries. This equipment is based upon state-of-the-art technology developed by Salem to provide increased productivity, pollution control and energy conservation. These features have been incorporated into metals heating furnaces, metal strip processing machinery, coal cleaning facilities and coke ovens.

110

Sanders Associates

	Net Sale (Mil)	EPS
1980	281	$2.65
1979	164	2.37
1978	146	2.00
1977	149	1.56
1976	170	1.29

Sanders Associates is a leading producer in the defense electronics and computer graphics markets. Sanders has been a leading supplier of electronic warfare systems for over 25 years. Sanders is the world's leading producer of refresh stroke graphic displays, and, through the recent acquisition of CalComp, is a major producer of graphic plotters and other computer graphic equipment.

111

Santa Fe Industries, Inc.

In 1980 Santa Fe Industries, I achieved record results for the fi consecutive year. Revenues increa 25.8 percent to $3.2 billion and income increased 32.5 percent $301.8 million or $10.42 per sh Santa Fe Industries is engaged in tra portation, including The Atchison, peka and Santa Fe Railway, natu resources, forest products and real tate and construction. NYSE symb SFF

11

Saxon Industries, Inc

Saxon Industries, Inc. concentra upon serving the growing demand paper and paper-related products, o ating in three distinct but compati areas of business. *Paper and Pa Products*—printing and industrial pers, disposables, envelopes and s control films. *Business Products*—p tocopiers and supplies. *Advertis Specialties*—graphic arts products, p miums, and business gifts . . . Sa serves more than 150,000 customers internationally. Sales 1980 were a record $709,600,000 compared with $648,790, MM for 1979.

11

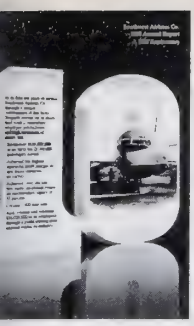
Sigmor Corporation

Sigmor Corporation reported the m profitable year in the company's his ry in 1980 as revenues increased 7 to reach $1.3 billion. Net income m than doubled to reach over $48 m lion, while on a per share basis, earnings rose to $3.59. Sigmor, nation's largest independent gasol retailer with 600 outlets in 18 states also engaged in refining, explorat and production, petrochemical tru ing, pipe distribution, metal fabrication and radio broadcasting

11

Guideposts to the future

To a large extent, any company seeking interest prospective investors has to stand past performance. Annual reports are recor of this performance. If you are looking for source of future earnings, look into these r ports.



Southwest Airlines

Southwest Airlines provides single-class high frequency air service characterized by low fares and convenient departures to cities in Texas and to New Orleans, Oklahoma City, Tulsa and Albuquerque. Southwest concentrates on short-haul markets stressing high levels of aircraft utilization and employee productivity. In 1980, Southwest's 10th year of operations, it achieved the highest operating profit gin of any major domestic airline. Return on average stockers' equity has been in excess of 30% for the last seven years.

115

Sparton Corporation

Record fiscal 1980 net sales and oil and gas revenues – $100,948,402 (up 20.75%). Net income – $2,298,520. Shareowners' equity – $32,021,261 (up 2.9%). No long term debt. Continuous dividends since 1963. Two-for-one split (effected as 100% stock dividend) paid Oct. 31, 1980. Sparton's oil and gas subsidiary increased discounted proved developed reserves to $29,850,000 in 1980, up from 302,000; oil and gas properties carried at $6,502,000. (NYSE)

116

Steelmet, Inc.

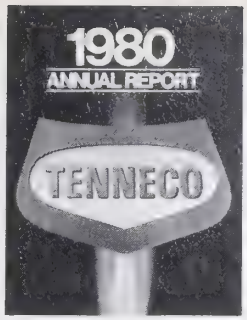
Steelmet, Inc. had record sales for the second consecutive year. Sales increased 17% to $368,348,000. Net income was $4,636,000 or $2.13 per share. Return on invested capital was 21.6%. Steelmet purchases, segregates and processes secondary or scrap metals. The Company is the leading processor of secondary stainless steel and nickel alloys in the world in addition to processing ferrous, non-ferrous and temperature alloys. Its principal sales activities are in the cd States, Europe and the Far East.

117

Teleflex Incorporated

Despite recessions in two of its traditional markets—automotive and marine, Teleflex Incorporated continued its five-year record of increasing revenues and earnings during 1980. Revenues climbed to $79.0 million from $68.8 million in 1979, a gain of 15%. Net income rose to $4.76 million from $3.87 million, a gain of 23%. Earnings per share increased to $1.57 from $1.29, adjusting for a two-for-one stock in December. Results reflect a continued strengthening of ical portions of the company's business in aerospace, coat- and medical, and a redeployment of assets away from those energy sensitivity.

118



Tenneco Inc.

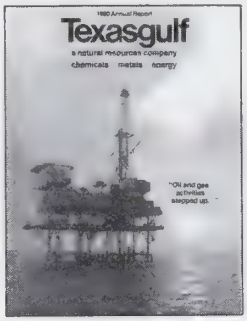
Continued success in exploring for energy helped Tenneco earn record net income of $726 million in 1980, up 27 percent over 1979. While energy operations contribute more than three-fourths of Tenneco's income, the Company is diversified into seven other profitable business lines. That's Tenneco today: growing in energy . . . and more.

119

Texas Air Corporation

Texas Air Corporation, the holding company for Texas International Airlines and newly formed New York Air, earned $4.7 million in 1980. Revenues increased 24% to $291 million and net worth rose to $90 million. Texas Air sold $40 million of convertible debentures during 1980 and New York Air issued and sold 1.8 million common shares in February 1981.

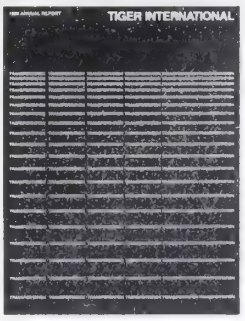
120



Texasgulf Inc.

A diversified natural resources company, Texasgulf in 1980 achieved the highest sales and earnings in its history. Sales were $1.1 billion, up 38%, and earnings rose to $325.6 million, up 138%. Total assets passed $2 billion for the first time. Texasgulf finds, develops and produces: chemicals, including phosphates, sulphur, potash, and soda ash; metals, including copper, zinc, silver, gold, lead, tin and cadmium in ore concentrates or refined metal form; and energy, including oil, gas and coal.

121



Tiger International

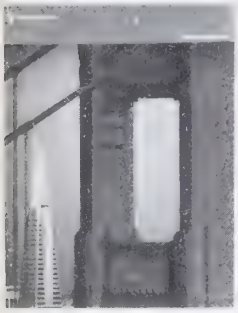
Tiger International is a major transportation company with 1980 revenues of $1.6 billion. Its subsidiaries include Flying Tigers, the world's largest air cargo carrier; North American Car, one of the nation's most innovative railcar service companies; Hall's Motor Transit, a major U.S. trucking company; and TigerAir, a growing international aviation service and supply company.

122

Toledo Edison Company

The Toledo Edison Company is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Toledo and Northwestern Ohio, covering an area of 2,500 square miles, with an estimated population of 750,000. 1980 marked the 58th consecutive year of dividend payments, with dividend increases in eight out of the last ten years.

123



Transamerica Corporation

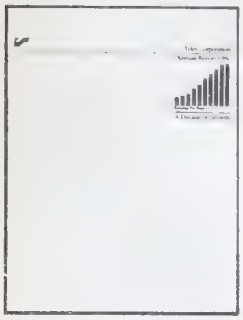
Transamerica is a diversified, multi-industry company with activities in three primary areas: financial services (insurance, consumer lending and equipment leasing), travel and entertainment services (air travel, car rental and movie distribution), and manufacturing of precision-engineered products. The company had its fifth straight record year in 1980, as income from operations reached $240 million on revenues of $4.4 billion.

124

The Travelers

The Travelers is one of the world's largest financial institutions, providing security for individuals, families, businesses and other organizations. It writes every principal form of insurance and offers a broad array of pension and investment services. 1980 revenues of $8.8 billion produced operating income of $8.63 per share. At year-end, assets were $21.6 billion; shareholders' equity was $2.6 billion and life insurance in force reached $106 billion. In January, 1981, the annual dividend rate was increased 16.1% to $2.88.

125



Tyler Corporation

For Tyler Corporation (NYSE), 1980 was the tenth consecutive year of record sales and profit performance. Fully diluted earnings per share (before an extraordinary charge) increased 5% to $2.46, setting five-year and ten-year compound growth rates of 16% and 23%, respectively. At 19.8%, return on shareholders' equity exceeded 18% for the tenth successive year. Dallas-based Tyler competes in the fields of building materials, trucking and industrial explosives. Annual dividend rate: $.55 per share.

126

United Energy Resources, Inc.

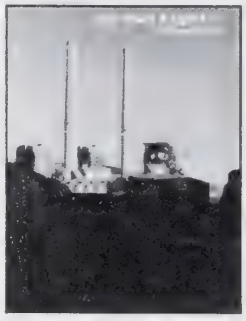
United Energy Resources, achieved record levels in net inco earnings per share and operating enues for the sixth consecutive yea 1980, net income was $165.5 mill on operating revenues of $4.1 bill compared with net income of $1 million on $3.1 billion in opera revenues in 1979. Per share earning 1980 were up 40% over 1979.

1

United Technologies Corporation

With record sales in 1980, this dive fied, high-technology corporat moved up to become the ninth lar U.S. manufacturing company. On s of $12 billion, net income was $ million. The company's best-kn products include Pratt & Whitney craft jet engines, Carrier air conditi ers, Otis elevators, and Sikorsky helic ters. Its new annual report is one of simplest issued by a major corporati

1



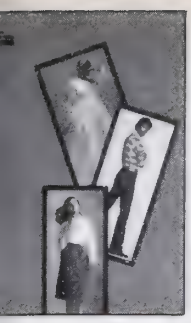
Utah Power & Light C

We sit atop some of the world's gr est reserves of low-sulfur coal. In 19 it fueled the turbines for 94% of electricity we generated. Our 1 earnings increased from $2.05 to $2 per share. Dividends paid increase 1980 for the 17th consecutive y Our current annual dividend rate $2.00 per share.

1

Talk is cheap. But this investment information is fre

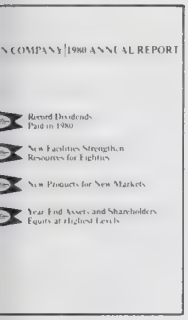
Before you act on someone else's investme advice, make sure you have all the facts. Se for your free annual reports from the ma prestigious corporations that appear in th section. These reports can provide you wi much of the background information need for sound investment decisions.



VF Corporation

VF Corporation, a worldwide apparel manufacturer with 25 consecutive years of increased sales, higher Earnings Per Share in 22 of last 25 years, and a sound balance sheet, had record sales of $634 million in 1980, Earnings Per Share of $5.15 and is paying dividends of $2.00 per share. VF companies are: Lee (western, work and leisure apparel); Vanity Fair (women's intimate apparel) and Kay Windsor (women's dresses and casual apparel). NYSE symbol VFC.

130



Van Dorn Company

New potential looming with molding machines to make half-liter plastic bottles for beverage industry. Annual report describes.

	Sales (Mils.)	Net Inc. (Mils.)	EPS	Annual Div.
1980	$172.4	$6.1	$2.01	$1.00
1979	193.6	9.1	3.02	.92
1978	178.7	7.9	2.64	.75
1975	99.9	2.8	.94	.36
1970	73.8	1.8	.74	.24

109-year old balanced company pro- g plastic injection molding machinery and special and gener- e containers. 10-year dividend growth rate, 15%. New plants apacity for growth in aluminum cans for processed foods. ,926 shares out. NYSE/VDC.

131

Varlen Corporation

Varlen—one of the largest OEM manufacturers of railroad anchors for track maintenance; cushioning devices for freight cars; rebuilds crankshafts, reconditions/sells locomotives, locomotive parts; agricultural components; metals for bindery industry; fabricates assemblies for furniture manufacturers, lawn/garden products; constructs, erects steel storage tanks, equipment for petroleum, chemical industries. sales were $114.6 million, earnings were $7.0 million or per share, an 8% increase over 1979.

132

ecade of Growth

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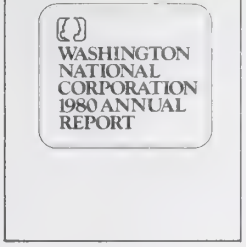


Washington National Corporation

March 6, 1981: Washington National Corporation, with assets in excess of $3 billion and life insurance in force of nearly $18 billion, announces its fifth straight year of record earnings. The indicated annual dividend was raised to $1.08, marking a five year compounded growth of 15.2%. In addition, a 3-for-2 stock split was declared.

133

Western Bancorporation

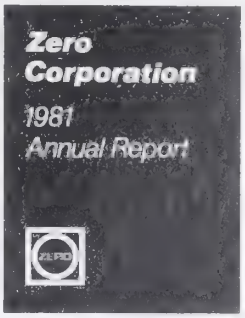
WBC ranks 9th in assets and 5th in profits (2nd from domestic operations alone) among U.S. banking companies. At $233.4 million for 1980, earnings have set new highs for 5 years in a row. In return on assets and on equity, WBC led the 15 largest U.S. bank holding companies in 1980. At $1.79 a share, WBC's 1980 dividends paid were up 14.0% over 1979, the 5th increase in four years. WBC banks operate nearly 900 domestic offices in 450 communities, including the 21 largest metropolitan markets and all major port cities in 11 western states.

134

The Williams Companies

The Williams Companies' record net income of $139 million in 1980 doubled that of the previous year, funds provided from operations of $287 million increased 46 percent and return on average stockholders' equity of 16.2 percent was up from 9.6 percent. Williams is a leading fertilizer, energy and metals company.

135



Zero Corporation

Zero Corporation reported compounded earnings in excess of 23% annually for the last five years. Fiscal 1981 will represent the eighth consecutive record year for revenues, earnings and return on shareholders equity. The company increased cash dividends eleven times since 1974. Zero is a leading manufacturer of enclosures and packaging for the fast growing electronics and computer industries. It also produces the Zero Halliburton line of quality aluminum luggage and camera cases.

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Faces
Behind The Figures

Edited by Jefferson Grigsby

How many engineers can you hire?

ve taken a big bite," says Fluor . Chairman J. Robert Fluor. He's not ng: If Fluor's $2.65 billion cash and offer for St. Joe Minerals goes igh, Bob Fluor will wind up running 1 billion company, a quantum leap e that he concedes would be impos- in his main business.

e nation's second-largest engineer- nd construction company, whose ues this year should be well over llion, has been looking to diversify natural resources for years. Bob got his chance when St. Joe came ng for a white knight after an un- dly $2 billion tender offer by Sea- Co. Ltd.

gram, of course, may be heard again, but Fluor's offer seemed n it anyway. "There's no way we hire enough engineers," Fluor to absorb his bulging cash flow, h was around $200 million last and potential antitrust conflicts ruled out acquiring other engineer- nd construction companies.

at about St. Joe Chairman John an, who was breathing fire over the Seagram acquisition offer only a week or so earlier? Being acquired isn't so bad after all, Duncan has concluded—it all depends on who the acquisitor is. Says he: "It seems to me we've got the best of all worlds."

There are a lot of possibilities with Fluor, says Duncan. "We could joint-venture with some of their clients—China, for example, which wants to modernize its coal business. Fluor has been talking to them, and we might be able to market Chinese coal. These are farfetched things, maybe, but this is the type of synergism I think we could certainly get."—**Nick Galluccio and Steven Flax**

Interested observer

Surely nobody in American business is watching Poland's crisis more closely than Occidental Petroleum Chairman Armand Hammer, who has an important sulfur deal hanging in the balance.

Oxy's Hooker Chemical division badly needs sulfur, a key fertilizer ingredient, and Poland needs hard currency to develop some of its extensive deposits. So several months ago, Hammer negotiated a joint venture with the Polish government. Poland will put up its sulfur properties, while Oxy and possibly some partners will furnish as much as $200 million in hard currency to develop the mines.

So far, Hammer says, the Polish crisis hasn't affected the deal. "Our people have been working right along, testing reserves and dealing with transportation problems," he says. In fact, he says, he hopes to sign a definitive agreement later this year.

Will Russia invade Poland? Hammer says talks last fall with Communist Party chief Leonid Brezhnev and Polish party chief Stanislaw Kania convinced him the Russians have no intention of doing so. Hammer knows a lot about the Russians (FORBES, *Apr. 28, 1980*), but he had better be right; an invasion could clobber his Polish deal just as the post-Afghanistan U.S.-U.S.S.R. deep-freeze has clouded his 20-year, $20 billion chemical exchange deal with the Soviets. Under that agreement, signed in 1973, Oxy was selling the Soviets phosphoric acid, a critical fertilizer chemical, in exchange for Russian ammonia, potash and urea. Although Oxy is still buying Soviet chemicals for hard cash, it hasn't been able to sell the Russians phosphoric acid since Jimmy Carter imposed the trade embargo last year.—**John Merwin**

Landing on his feet

When Colin M. Marshall, former executive vice president of Norton Simon, abruptly resigned in February, it raised immediate speculation that—like many another departed Norton Simon executive—he had left under pressure from David Mahoney, the conglomerate's hard-driving chief executive.

Marshall, 47, denies that. And his new post is hardly a step down. On Apr. 6 he took over as deputy chief of Sears Holdings, Ltd. (no connection with Sears, Roebuck). A $3.5 billion London-based holding company deriving much of its income from footwear, Sears Holdings—like Norton Simon—is in a number of consumer-oriented businesses.

rt Fluor of Fluor Corp.
to do with the cash flow.

Occidental's Armand Hammer
Keeping an eye on Poland.

Marshall of Sears Holdings
Out in the nick of time.

Tenneco hit oil or gas in 15 of 24 exploratory wells in the Gulf of Mexico last year.

TENNECO

Another Tenneco Venture:

Exploring the Gulf of Mexico.

We 'hit' a .625 average in wildcat drilling... great in any league.

During 1980 Tenneco drilled 24 wildcat exploratory wells in the Gulf of Mexico...and discovered oil or gas in 15 for a batting average of .625! This is far above the industry success ratio of about one "hit" in five attempts.

For 20 years Tenneco has been among the leaders in exploring for energy beneath the Gulf of Mexico, and today ranks among the top three energy companies in natural gas production in this area. The Company is continuing its aggressive Gulf exploration policy. During 1980 Tenneco acquired 18 new federal tracts at a cost of over $200 million. Several were among the most sought-after blocks offered. In addition, the Company paid $19 million for interests in state tracts off Texas and Louisiana.

Tenneco is also active in other offshore areas. The Company is one of the few to have found oil and natural gas in the Baltimore Canyon off New Jersey, and holds promising leases in the Georges Bank area off New England and in the Beaufort Sea off Alaska.

Onshore Tenneco added more than 400,000 acres of exploratory land in 1980, and now holds more than 6.2 million acres in the U.S., both onshore and offshore. The Company is also actively exploring nonconventional sources of energy such as oil from shale and gas from coal.

All of this activity reflects the Company's basic strategy of increasing its search for the domestic energy our country needs. During 1981 Tenneco plans to invest over $1.5 billion in energy projects, more than double the profits of the entire corporation in 1980. And to keep the "hitting" average high!

Although energy contributes more than three-fourths of Tenneco's income, the Company continues to provide other basic needs, like food, construction and farm equipment, chemicals, ships, automotive components, packaging, and insurance.

That's Tenneco today: growing in energy ...and more.

For more information about Tenneco, write to Dept. F-2, Tenneco Inc., P.O. Box 2511, Houston, TX 77001.

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Tenneco

Faces
Behind The Figures

Sears Holdings has just entered the U.S. shoe business with the $100 million acquisition of Butler's Shoe Corp., an Atlanta-based shoe retailer with over 500 outlets.

Whatever Marshall's reasons for leaving Norton Simon, it was apparently at the right time. In January the company reported a 22% decline in profits, mostly due to the weak performance of Avis, one of Marshall's two main responsibilities. Avis, like its major competitor, Hertz, has been hurt by less travel and a weak used-car market. Some analysts now forecast a 24% drop in Avis' profits for the year, with earnings up only modestly for Hunt-Wesson Foods—Marshall's other main job. The offer from Sears Holdings, says the London native, "made me look at where I stood at Norton Simon."—**Carol E. Curtis**

Is anybody getting rich?

David Stockman reportedly hands them out like jellybeans. Ronald Reagan gives them to his friends. White House tie clips? Presidential cuff links? No—copies of social philosopher George Gilder's new book, *Wealth & Poverty*.

Published a few months ago, the book is popular with the public, too; so far it has sold more than 100,000 copies, unusual for a work on economics.

One reason might be that Gilder's thesis is easy to understand. America, he says, has become obsessed with taxes, and with tax shelters. "There is a vast preoccupation with tax shelters in every home in the land with substantial earnings," he says, and in most cases, shelters are a delusion. To have a tax shelter, obviously you must have a loss. Better to decrease taxes themselves, which are inflationary—the author credits FORBES *(Nov. 15, 1976)* with first writing on that idea.

Gilder, 41, a Harvard graduate now with the New York think tank, the International Center for Economic Policy Studies, has written two other books. He says the U.S. has fallen into the same trap as European countries where "they are just desperately afraid that somewhere, someone might get rich." In Sweden, England and Denmark, for example, personal income taxes are astronomical while corporations get off relatively lightly. The aim is capital formation, "but when you look at the capital formation, it turns out to be cars and new suits for executives."—**Alyssa A. Lappen**

A sweet little monopoly

It may still be reeling from November's disastrous fire in Las Vegas, but MGM Grand Hotels, Inc. does have a few good things to look forward to. One is the prospect of a monopoly on casino gambling in Massachusetts.

Massachusetts? Yes: The state legislature is considering legalizing gambling in two—and only two—of Massachu depressed areas—Hull, a seaside just south of Boston, and Adams, mill town in the western part c state. Gambling would still be ille the rest of the state—and only *one* c would be permitted in each town.

In Hull, MGM is first in line company has signed a $325,000 pur agreement on a 54- to 60-acre site it plans to build a 400-room hote casino if the legislation passes. So fa the first casino company to buy pro there. And, in Adams, "We're neg ing for an option on a 1,164-acre says MGM President Alvin Benedic

Despite financial crises impose many Massachusetts municipaliti Proposition 2½ (FORBES, *Nov. 24,* Massachusetts citizens may no quite ready for the roll of the While Hull residents voted almost to-one over three years ago in fav gambling, in 1978 Berkshire Cou except for the town of Adams— in opposition. Perhaps that's wh state legislature wants to start sl limiting it to a single casino per t Whatever the motive, though, th fect will be to create a couple of s little monopolies in Massachusetts Benedict says as much: "The ke our interest is that we'd be in a casino town."—**Barbara Rudolph**

The fund fighter

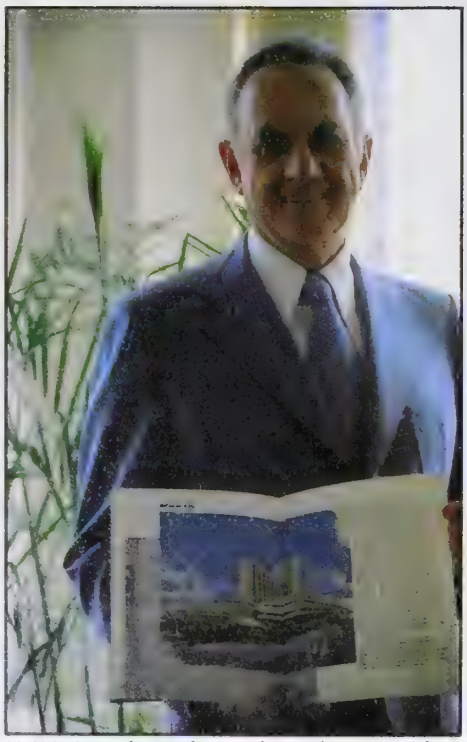
Attempts to cripple money market f have been beaten back in at least state legislatures. But the industry i out of the woods yet. The U.S. Leag Savings Associations, which repre 4,440 S&Ls, has quietly launched tional campaign "to restrain the billion monster."

The metaphor is from William O' nell, the league's chief executive of "The funds will bleed country bank savings associations white in co months unless something is done, says. O'Connell wants Congress to power the Fed to impose reserve req ments on money market funds and wants a ceiling on how much they pay. He also suggests a requirement the funds put a fixed percentage of into Treasury securities.

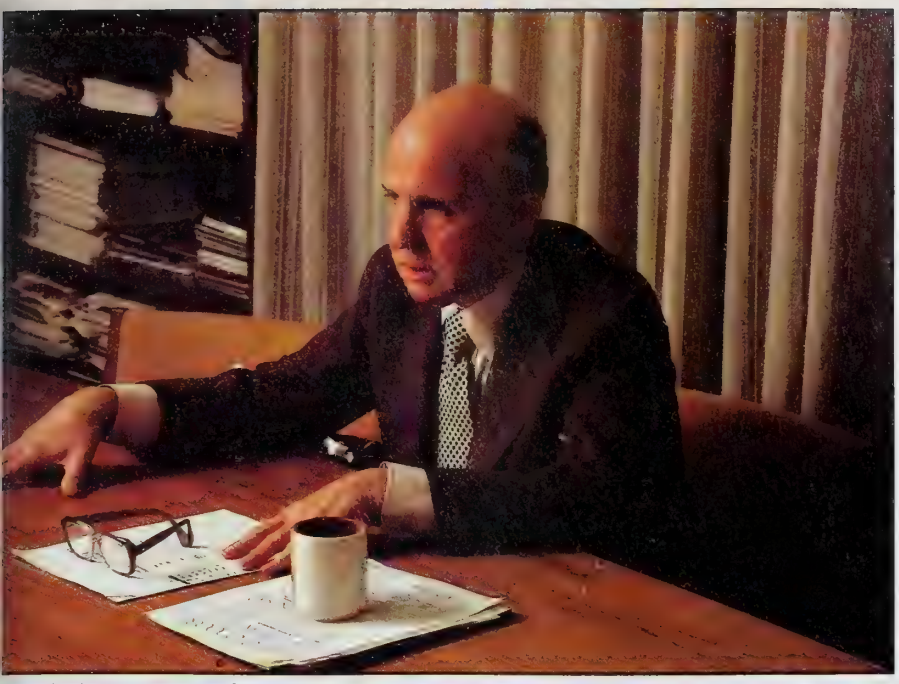
Yet even if O'Connell gets wha wants, the problems of his membe over 60% of whom are currently op ing in the red—will not be solved. funds make an easy target, but the villain is inflation. The thrifts now 12% or more for new money they us get for less than 6%, and must use finance mortgage portfolios yieldin average 9%.

O'Connell is optimistic about his c paign. Says he: "Enormous pressure going to build and force Congress to action." Maybe, but a more likely

Social philosopher Gilder
Limousines through the loophole.



MGM Grand Hotel President Alvin Benedict
Gambling on a one-casino town.



nnell of U.S. League of Savings Associations
ite his efforts, the "monster" may keep on growing.

e is that common sense and con-
er opposition will prevail just as they
n the legislatures of Utah, Georgia,
homa and Arkansas, where the law-
ers came to realize that money funds
small savers one of the best ways to
inflation. If the funds were put out
usiness, small savers would either
to take a skimpy 5½% on passbook
ngs accounts or lock up their money
x-month savings certificates that are
iquid and currently pay less than the
s. Institutions and wealthy individ-
on the other hand, could continue
ail down high yields in commercial
r, bonds or Treasury bills.
ven that, there seems no restraining
funds if O'Connell's campaign, as
s probable, does not succeed. As
he concedes: "If nothing is done,
assets of money market funds will
1 $200 billion in a very short period
me."—**Thomas O'Donnell**

Silver Spirits, crown jewels

auto business in general is a disaster
these days, but George Fenn, 52-
old chief executive of Britain's
-Royce Motors (now a division of
ers Ltd.), expects his company will
y set another record in 1981. To
e that, Fenn was in New York last
th to introduce two new four-door
sedans—the Silver Spirit and Silver
—that will replace the legendary Sil-
hadow and Silver Wraith, the best-
ng models in Rolls' 75-year history.
new models were introduced last fall
rope and the Middle East, and sales
are already up 20%. In the U.S.,
are up 30%, with the impact of the
new models, of course, yet to be felt.

Fenn is superstitious enough not to claim that Rolls is recession-proof. "That would be tempting fate," he says, but clearly Rolls' well-heeled customers are among the last to cut back personal expenditures when the economy takes a nose-dive, and they haven't had to do that in memory. What limits Rolls' sales volume, Fenn explains, isn't demand. It's the difficulty of increasing production of a car that takes four months to make without sacrificing Rolls' quality. So, as it has in most recent years, production will be up maybe 7% this year, to 70 cars a week, or 3,500 a year. "If we produced more," Fenn says, "we could sell them, but we couldn't produce them to our standard of quality."

Rolls normally sells 40% of its output in the U.K., mostly to corporations, and 30% each in the U.S. and elsewhere, mainly to individuals. Although it has something of a monopoly in its narrow market, Rolls nonetheless avoids any temptation toward monopoly pricing. That may seem hard to believe, however, considering the $109,000 and $117,000 price tags on the new models and the $155,000 price tag on its top-of-the-line Corniche convertible. Fenn blames this on inflation and the strength of the pound, and insists that, like other automakers, Rolls prices its products on the basis of costs. Long term, that has meant it has netted 10% on the sales dollar—maybe $25 million last year. Besides, though Rolls may not have much auto competition to worry about, at those prices you're not competing with automakers, you're competing with other claims on the rich man's dollar—yachts, jewels, swimming pools, racehorses.

Own a bottle.

It's worth the price to have at least one thing in your life that's absolutely perfect.

Tanqueray Gin. A singular experience.

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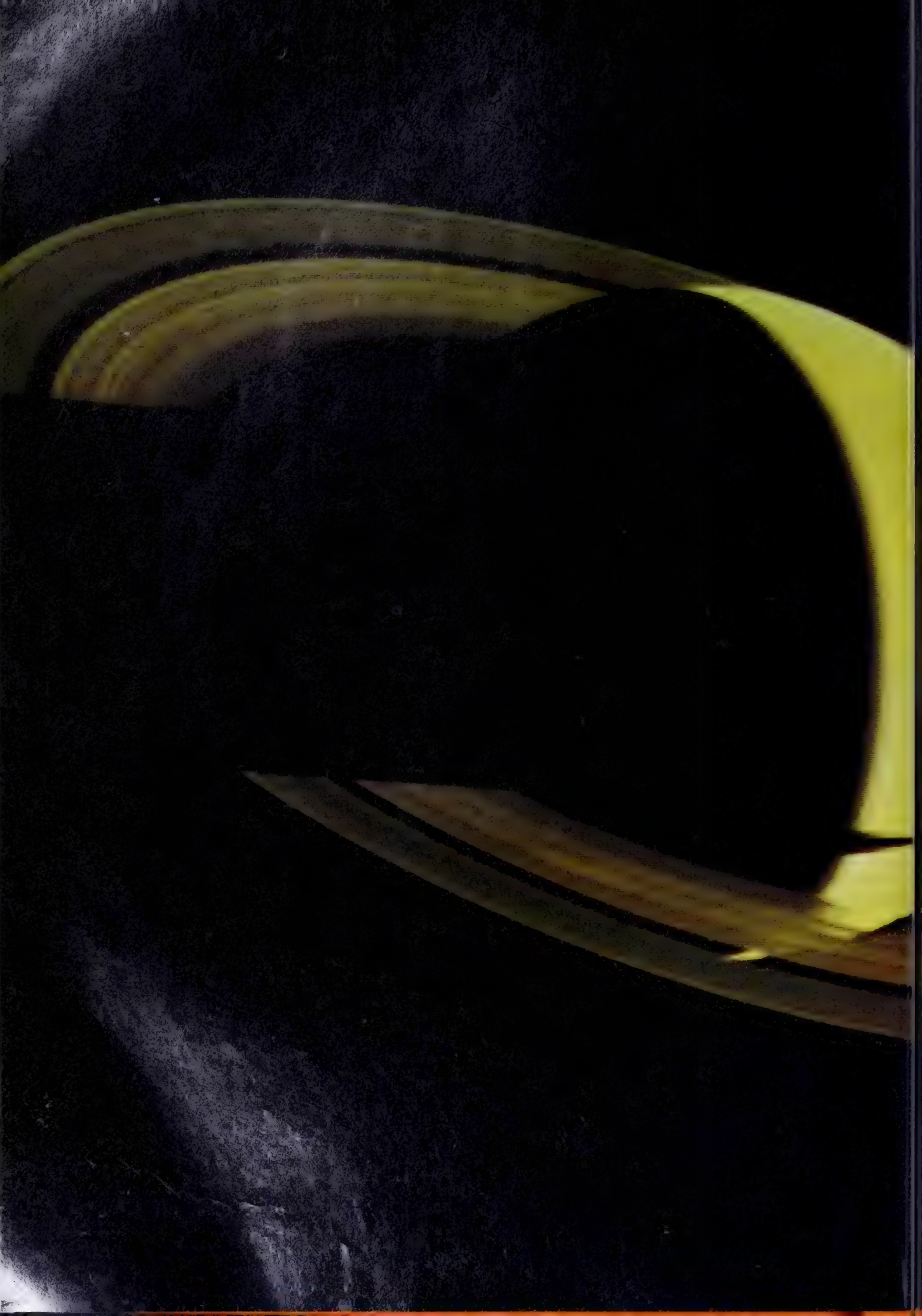

TIME

Reach for the gold ring.

The impulse that prompted man to reach for the great gold rings of Saturn, the instinct to explore, may be one reason for man's success as a species.

Curiously enough, we do not take curiosity very seriously. But it has done great things for mankind. It is the larval stage of every great achievement, from polio vaccine to space exploration.

One reason for the enormous success of TIME Magazine is that it takes intelligent curiosity very seriously indeed, and works hard to satisfy it.

For instance, consider TIME's recent award-winning cover story on Voyager's Saturn adventure. To see the pictures made one want to know all about them. And TIME came through in characteristic style: thorough, accurate, readable, memorable.

TIME's ability to breathe life into any subject is rarely more welcome than in the field of science, where so much happens, and so much of it is hard to understand. Clarifying the opaque and the esoteric has its rewards: some of TIME's best-selling issues have been those featuring scientific subjects, from sociobiology and backache to insect sexuality.

Indeed, TIME's way with science may have been a harbinger of a publishing phenomenon, the proliferation of specialized magazines treating scientific subjects for the layman. All are extensions of TIME's basic mission: to make it easy to understand the things you need to understand.

TIME. Millions more people read it every week. Because we work so hard to put more into it.

TIME

More goes into it.

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George Fenn of Rolls-Royce Motors
"We could produce more, but not to our standard of quality."

Besides the Spirit, the Spur and the Corniche, Rolls also produces the Camargue and the Bentley Mulsanne. But it's not a replacement market. Of the 85,000 Rolls-Royce motorcars produced since the beginning of time, more than half are still in operation, and the newest models should run well into the 21st century. Fuel consumption has improved 20% over the past decade, but only to 11 mpg on average. But, to paraphrase J.P. Morgan on the subject of yachts, if you have to worry about the cost of gas, you shouldn't be driving a Rolls.

Today's Rolls-Royce is descended from the aircraft engine combine that went bankrupt in 1971, but it remains one of the crown jewels of the industrial world. In merging with Vickers, it is far from being the junior partner in the deal. It may have contributed only 20% of last year's $1.3 billion or so in sales, but it easily kicked in more than half of Vickers' net income and has already produced Vickers' new chief executive, David Plastow, whom George Fenn, a purchasing specialist, succeeded as head of Rolls-Royce Motors last fall.—**James Cook**

Racing with the wind

Building a boat in your backyard is nothing new, but Greg Brazier, a 35-year-old college administrator is building one that should really be something: a 70-foot steel cargo ship to be equipped with two 65-foot masts and seven dacron sails.

A wind-powered cargo ship? Brazier believes so fervently that his Phoenix (named after the mythical bird that rose up from the ashes) will, as he puts it, "mark the rebirth of the sail-powered cargo hauling industry" that he has sunk his $100,000 life's savings into the project. Standing in his cluttered backyard drydock at East Islip, Long Island, he lays out his reasoning: Small businesses on Long Island sometimes have to wait two days before a truck fills up so their cargo can move out on the 120-mile, three-hour journey to New England. When the 20-ton-capacity Phoenix goes into operation in June, it will sail 16 miles across Long Island Sound to Bridgeport, Conn. in only two hours and at rates that are 25% to 35% cheaper than those the truckers now charge.

The Phoenix will have a small backup diesel engine to keep it on its 10 a.m. and 2 p.m. departure schedules should the wind give out, but even at that, Brazier

Shipbuilder Greg Brazier
$100,000 to the wind.

Faces
Behind The Figure

says he would have virtually no costs. "I'm probably one of the ver people in the U.S. who smiles every fuel costs go up," he says.

Brazier admits sail power is no o answer to OPEC. But it does have cation to certain areas such as Lo land Sound, he says, or perhaps the Lakes—large, unbridged bodies of lying between populous and indu areas.—**Jeff Blyskal**

Man in the middle

Britain's new Social Democratic spent some $228,000 on publicity advertising last month to announ founding. The founding fathers mothers, ex-Labourites and ex-Co vatives, had only about $182,000 i coffers. Clive Lindley, chairman o SDP's finance committee, clearly h work cut out. Lindley figures it wil at least $2 million a year to run the and he wants most of it to come individuals in order to avoid too ties with either business or unions. won't accept money with condition

A businessman himself (his priv held catering companies last year $1.4 million on sales of $47.9 mil Lindley believes Britain's prob won't be met merely by founding a party, even if it is successful. To iro political extremes in the U.K. and-

SDP money man Lindley
In the center and in the red.

lentally—give the fledgling party a r chance of winning some seats in ection, the SDP is pushing for elec- reform to bring about proportional sentation. That concept, he says, strong support in industry, which it almost impossible to plan for the e when it is faced with a complete ch of political climate every three or years.

usinessmen have been cured of their usiasm for Mrs. Thatcher because of has happened to them," says Lind- We're starting with a clean sheet of . We can learn from the others' akes—and successes."—**Barbara Ellis**

Starting from scratch

more vivid examples exist of the dependence between academe and stry than California's Silicon Valley Massachusetts' Route 128, respec- y nurtured by—and nurturing— ord University and Harvard/MIT. former NASA executive George president of New York State's ven- e Rensselaer Polytechnic Institute, ving to build a new Silicon Valley scratch.

lure high-technology companies, 57-year-old university has set aside 00-acre technology park near the us, and is investing $3 million to ll roads and utilities. Low hopes it become the kind of laboratory "that st can't duplicate on campus." Engi- ng and physics can be taught, he much more effectively than their cation to business: "What's very to teach is what it takes to bring a ict to the marketplace."

w, 54, a prewar refugee from Austria still speaks with a soft accent,

ow
to earth.

Galbraith the Younger
Peace in the family when it comes to the important things.

graduated from Rensselaer in 1948 and spent 27 years with the U.S. space program, rising to head the Apollo moonlanding program before coming to RPI in 1976. Struck by the synergy between Stanford and Silicon Valley during a visit there in 1976, he decided to try to duplicate it in the Hudson Valley. Two years ago, RPI set up a Center for Manufacturing Productivity, persuading Boeing, General Motors and General Electric (of which Low is a director) to put in up to $500,000 each as initial sponsors.

Students at the center work on manufacturing problems proposed by the corporate sponsors—like computer simulations of robot work on production lines. That approach grew from Low's feeling that top-notch students consider manufacturing a bore compared with the systems glamour of aerospace and computer science. "We want to make manufacturing exciting," he says. "Now, it doesn't have the elitism of some other disciplines, so nobody wants to go into it."

What was it like for Low to move into the private sector? "That moon project was something very hard to come down from," he says. On the other hand, "in the last five years, RPI has been a growth company. NASA hasn't."—**Van Wallach**

Like father . . .

The sons of famous fathers sometimes turn out to be rebels to their fathers' views, but if you thought that would be the case with John Kenneth Galbraith's son, forget it.

When it comes to the Reagan Administration's supply-side economics, says 29-year-old James Kenneth Galbraith, the new executive director of Congress' Joint Economic Committee, "we share complete in-the-family harmony." The harmonious consensus: It won't work.

"Supply-side economics is Keynesianism for the wealthy," says young Galbraith. "It's demand-side economics and supply-side drag" which won't dramatically change the economic situation.

Galbraith supervises the 13 Democrats on the 26-member economic staff of the joint committee, and since the Democrats control the House of Representatives, he also has overall responsibility for committee administration.

A graduate of both Harvard (B.A.) and Yale (M.A.), Galbraith has completed work for a doctorate at Yale. He does have some areas of agreement with Reagan. He has no major complaints about the magnitude of the Administration's planned budget cuts, for example: "I just find it very easy to quarrel with the choice of targets." In his opinion, the $52 billion budget ax is aimed at spending programs essential to the poor, to business investments and to state and local governments. "The Administration came up with $52 billion in cuts out of something like 30% of total spending," he says. "This is a very difficult act to persevere."

Can the committee's Democratic and Republican members, drawn from both House and Senate, work together? According to Galbraith, who once served on the House Banking, Finance and Urban Affairs Committee staff, there's broad agreement on three items: raising the rates of investment, productivity and growth; accelerating depreciation; and increasing job investment. "In principle," he says, "there's even a lot of sympathy on the Republican side for investments in infrastructure and labor force training."—**Desiree French**

Personal Affairs

Edited By William G. Flanagan

Taxing moments

By now, let's hope your tax return for 1980 is already in the hands of the IRS or soon will be. (If not, and you need more time to file, it's a snap to get an automatic extension. Simply file Form 4868 and you get a two-month grace period. But, with the request for an extension, you are supposed to enclose a check for anything you owe, or face a penalty later. And that, of course, is pretty tricky if you haven't figured out your tax tab yet. Such is the Catch-22 wisdom of the IRS.)

With your return filed, now the waiting begins. For many, it's a refund that is awaited. For most, it's an audit that is feared. Most Americans (close to 75%) traditionally overpay their tax bills and thus expect refunds. Exactly how long it takes to get your interest-free loan to the government back depends on when you filed. According to the IRS, it takes at least ten weeks to get your refund if you file close to Apr. 15. If you file earlier in the year, the check will usually be in the mail to you within eight weeks unless there is something amiss in processing your return.

Now let's examine your audit chances. The absolute number of tax returns that are audited is really quite small—only 2% or so. The odds shorten as your income climbs. Or, if you are in a profession which the IRS chooses to target for one reason or another. Dentists, entertainers, artists, lawyers, doctors and accountants have had more IRS scrutiny in the past than the general public. Remember, too, some taxpayers are audited totally at random—so the IRS can better sniff out tax cheats, and arrive at certain norms for "grading" returns. The Taxpayer Compliance Measurement Program audit is a killing, item-by-item examination. But the odds of being hit are long indeed—about 2,000-to-1.

Of course, certain types of deductions common to big earners automatically invite close IRS scrutiny. If you are involved in a tax shelter, for example, and the limited partnership shows annual writeoffs of $25,000 or more, the chances of an audit are about 1-in-4. Hefty travel and entertainment expenses, interest-free loans to relatives and income-splitting techniques will also lift the eyebrows of many an IRS auditor.

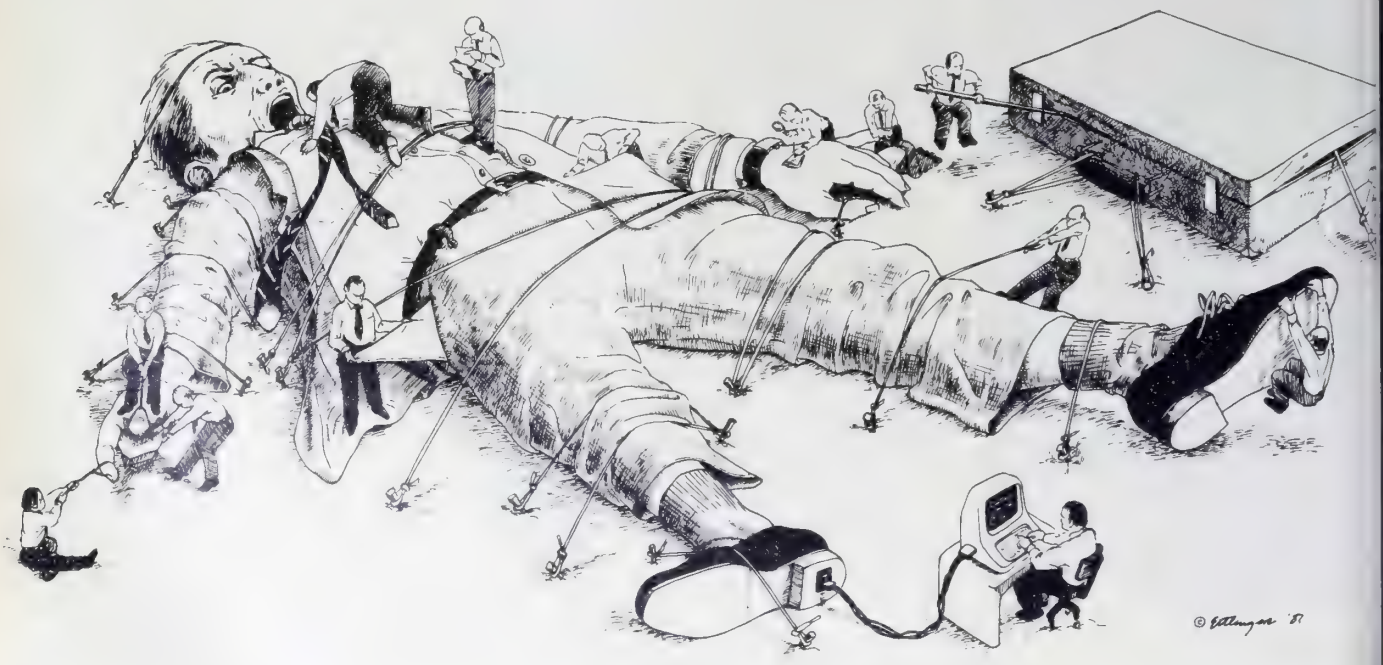
But the moral is clear: It's wise to expect an audit sooner or later. You are not likely to be disappointed. And that means being prepared to document everything that is on your 1040 and other tax forms. Remember, the IRS just loves paperwork. You can promise them anything, but give them the proof.

In the past year, two excellent guides to dealing with an audit were published—and both were written by former IRS agents. *All You Need to Know About the IRS* by Paul N. Strassels and Robert Wool (Random House, $11.95) is lively and informative about how the IRS wins through intimidation. It should be on every high five- or six-figure earner's bookshelf. But one word of caution: The authors are less than kind in their descriptions of a typical IRS auditor. By now, it's a good bet lots of IRS auditors aren't crazy about the book. So mentioning it to an agent might prudent. The more recent *How to Su Tax Audit* by Mary L. Sprouse (Doub $11.95) focuses almost exclusively audit experience, and in a gentle According to Sprouse, getting aud really no big deal—provided you can ment what you have claimed. Th course, is easy for her to say—she ha on the other side of the desk throug 1,000 audits. So it is not so surpri and she makes a strong case of it courtesy can go a long way with a auditor.

Sprouse also makes a good case f bringing a representative with y sending one in your stead, if yo called in for an office-level audi reasoning: Only *you* know the an to the questions the auditor is lik ask. If you do run into a problem you can call in your accountant, en agent or tax attorney. And there sense in paying for such professiona until it is actually needed. "Witho necessary receipts, you can expect more tax. A representative isn't go change that," she writes.

On the other hand, if you a upper-income taxpayer, you mig ready be paying for the help of a needed. (Many professional tax p ers are well accustomed to through the audit process and car lot less emotional and a lot more p sional about the whole business you would be.) Moral: If you don't tinize how your preparer or fin adviser does your return, don't fa audit without him or her, or s send your preparer in your stead are likely to flub things on your c

How exactly are you notified i have been singled out for an audit IRS can contact you by phone, lett



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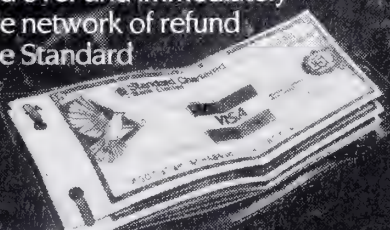
Standard Chartered/Visa Travellers' Cheques are easy to buy, honoured the world over and immediately refundable through a worldwide network of refund locations. Wherever you see the Standard Chartered/Visa sign, you know you're travelling with the right company.



Standard Chartered
Visa Travellers Cheques

A great partnership for travellers to bank on.

Personal Affairs

rarely, in person. If you are contacted in person, you are not required to admit the auditors into your home or to talk to them at any length. In fact, you will probably jeopardize your position (if you have any position to jeopardize, that is) by doing so.

By far the most common means of informing taxpayers that their returns are being examined is by letter; the notification will instruct you to contact the auditor within ten days to set up an appointment. But if you want to delay things, you certainly can, despite what the IRS says.

If you fail to set up an appointment after the initial contact, according to the letter, "we have to act on available return information that may be incomplete." The implication, according to Charles Maxwell Berg, a Beverly Hills tax attorney with Berg & Allen, is that failure to act will mean you will owe a lot of money. But, insists Berg, that simply isn't the case.

Failure to respond to the original letter only means you will eventually receive another notice. That one will show an actual assessment. You are urged to either sign an agreement of the deficiency or contact the agency about the matter. You are told that if the IRS doesn't hear from you in 30 days, "it will have to process your case on the basis of adjustments shown in the examination report."

If you still take no action, yet another letter follows. You will then be given ten days to reply.

"All of these letters are calculated to intimidate you into action, yet legally you are under no obligation to act or say anything," says Berg. The serious stage comes when you receive a "Notice of Deficiency." That's when you have to pay, period. But that could only come as long as a year or more after the initial contact—not the 10-to-30-day intimidation periods stated in the letters.

If you don't want to, Berg says, you don't have to act at all until that final Notice of Deficiency arrives. (Of course, it may not be in your best interests to wait that long—you may already have waived some rights—but that is the period of time you can legally stall before you must pay.)

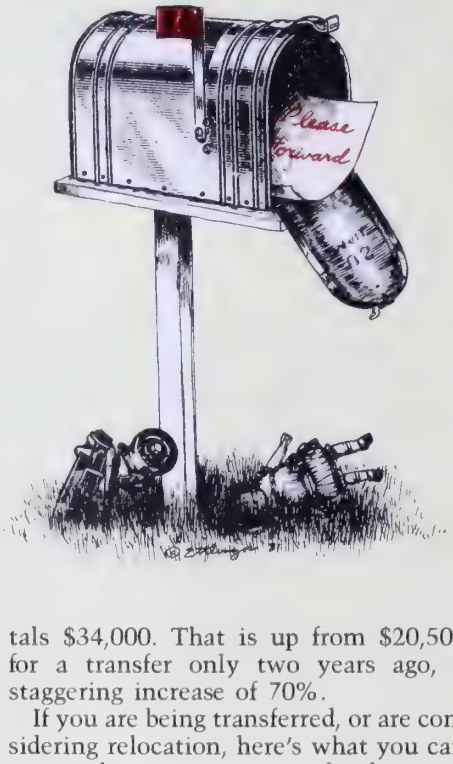
But note: You may be tempted to put things off in the hope the Internal Revenue Service will "lose your audit." This, alas, is about as rare as an auditor's sending you flowers.

Moving events

It's traumatic enough to change locations because of your job, but when you throw in the possibility of real economic loss—despite increases in salary and benefits—it's not surprising that a lot of companies are having a hard time relocating employees.

Yet, while the number of executive moves is down, move some must. And that means the company doing the moving has to come up with a lot more cash to make the move worthwhile. Not in salary or fringes, but in outright moving-related outlays.

According to Homequity, the nation's largest relocation firm—which last year handled 30,000 household moves for nearly 400 corporate clients—the cost of moving a family of four a distance of 1,000 miles now totals $34,000. That is up from $20,500 for a transfer only two years ago, a staggering increase of 70%.



If you are being transferred, or are considering relocation, here's what you can expect the company to pay for the move (or what you should bargain for before accepting the move). Figures are averages, of course.

- The initial trip to the site to meet the new boss and make a quick tour of the housing available: $375.
- The search to look for a home at the new location (with spouse along, of course): $1,900.
- Temporary living accommodations for you and your family until new home is ready for occupancy: $2,300.
- Interest on the bridge loan that's required to make a down payment on the new house: $720.
- Cost of selling the old home (including the services of an agent such as Homequity): $11,900.
- Shipment of household goods: $
- Expenses while traveling to n cation: $500.
- Interim living for family, just furniture arrives: $235.
- Incidental costs of new home chase (points, closing costs, etc.): $
- Miscellaneous allowance to such items as appliance hookups drapes, carpet-laying, pet care (in nel), driver's license, etc.: $2,650.
- Interest differential between vious lower mortgage rate and new er one (based on a three-year reim ment period): $7,300.

Offset of income taxes created b tain moving expense reimburse that boosted the taxpayer into a h tax bracket for one year: $1,465. member, most moving expense credited to you by the company as income; it's up to you to deduct m those expenses. But your gross salar be upped, meaning a higher overa rate on nonmoving-related income.

Obviously, companies have h consider just about everything in suading employees to move. Yet th still considerable resistance, me companies may have to increase t ducements even more.

Robert Kunish, president of equity, ticks off three obvious re why transfers are turned down. Firs scarcity of mortgage money. Secon prohibitive cost of switching from a interest to a high-interest mortgage third, spouses may be unwilling to up their jobs or change careers.

There are other, subtler, reasons says Kunish. For one thing, transf have a hard time accepting the fact their homes may be worth less right than they were only a short time during the peak of the housing ma And they want comparable or b housing at their new locations wit any additional financial burden—of very hard thing to do.

People who are transferred also that they are forced into a weak bar ing position when they are selling homes, because they cannot wait fo best offers. Finally, people being t ferred perceive the cost of living wi higher at the new location than at old one, even if that is not the case.

Kunish feels that companies sh tread very carefully when broachin subject of a move with a valued em ee, and emphasize what they will ameliorate the shift. "Potential tran ees cannot always see the intent behind an employer's relocation p and the difficulties in administeri during such unstable economic c tions. The transferees resent what consider to be unfair demands or i equate assistance."

Qk rdg

ould it be that almost a million senior-level executives never got beyond the seventh grade? In s of their reading speed and com-ension level, according to Xerox ning Systems, the answer is yes. a subsidiary of Xerox Corp., figures the typical exec reads only 250 s per minute with 70% compre-ion. He spends 15 hours a week ting some 1 million words just to e day-to-day decisions. That's why brought out a speed-reading kit d "Speed Reading Self-Taught" con-ng reading material and instruc- you'll need to double or even qua-le your speed in ten hours—with er comprehension. As the name ests, it is not a course requiring s of classroom attendance or reli- on electronic aids for speed-read-The time and place to study is up to The kit helps you develop a strate-ays an XLS spokesman, "to know you're reading and then decide her you should pursue it further." came up with the kit after ten of group training sessions for ex-ves of FORBES 500 companies. e is also a package designed for panies. Minimum order is ten kits. more information, write to Speed ing Self-Taught, Xerox Learning ems, One Pickwick Plaza, Green-, Conn. 16830. Cost is $80.

Blighty bound?

ondon's hotels come in three dis-tinct categories: excellent and ex-pensive; mediocre and expensive; dreary and expensive. Ergo, the best often jammed (include the Ritz, the eley, Claridge's, the Connaught, Inn he Park, the Dorchester, Carlton er, Grosvenor House, the Inter-Con-ntal) and the Savoy Hotel.

equent visitors to London might ider joining a new club open to s at nominal membership ($100 an-y for individuals, $500 for corpora-). St. James's Club is small (46 suites studios), geared to executive travel- Telex, direct-dial phones, chauf-d Rolls available) and reasonable by ty's standards ($150 per night for os, $240 to $350 for suites; no extra ge for double occupancy). First-time ors can get temporary membership 3 hours' notice. Contact in the U.S.: rt Reid Associates, 1270 Avenue of Americas, New York, N.Y. 10020.

r long stays, or if your company has gh traffic to London, you might con- a "service flat." Usually available ree weeks or longer at a time, these ments run the gamut from luxuri- to barely habitable, though most d proclaim themselves "deluxe."

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Personal Affairs

Newspaper ads are risky. *Egon Ronay's Lucas Guide 1981* ($12.95) lists detailed information (price, location, style of accommodation, amenities and a rating system—up to three crowns) on 22 establishments renting 740 furnished apartments for periods of up to a year. Ronay gives his best rating to One Carlos Place. Weekly rates for its 11 apartments range from $1,100 to $4,700.

Incidentally, this year the following restaurants in London rate as Ronay's best: Chelsea Room in the Carlton Tower; Carrier's; Connaught Hotel restaurant; Interlude de Tabaillau; Le Gavroche; Ma Cuisine; Mirabelle; and La Tante Claire.

At the St. James's Club in London
A bargain for Yanks—by British standards.

Optional extras

Do the accessories you add to a brand-new car pay for themselves when you resell the car?

That question has probably passed through the minds of most new-car buyers, and all kinds of assurances have slipped through the lips of the new-car salesmen. But Runzheimer & Co. of Rochester, Wis., which compiles all kinds of data on cars for major fleet operators, recently analyzed the question for fleet owners. Alas, the answer is not a simple one. Much depends on the car and on the accessory.

However, there are some rules of thumb. With compact and larger vehicles, some accessories are practically "musts" or the car will be a slow mover on the used car lot (and will thereby bring a lower trade-in price from the new-car dealer). At the very least, midsize and large cars should have automatic transmission, power steering, power brakes, air-conditioning, whitewalls and wheel covers. In addition, the appropriate body paint, special moldings and deluxe mirrors will also add significantly to the car's resale value.

On the other hand, subcompact cars fare better on the auction block with more economical standard transmissions. Still, says Runzheimer, they too ought to be dressed up to look sporty. And, no matter what size car you are talking about, pin-striping is a valuable sales aid, according to the auctioneers that Runzheimer surveyed.

One veteran auction executive holds that a lot of extras on luxury sions of certain models pays off. Fo ample, ordering a Caprice Classic tilt wheel, cruise control, etc., will stantially increase its resale value c standard car.

Figuring out exactly which access will carry their weight on the used c is a bit tricky. A 1981 Chevrolet In 6, for example, equipped with autor transmission, air-conditioning cruise control, will fetch $436 mo resale than the same car equipped only an automatic transmission. B own and operate those two options- conditioning and cruise control— $160 per year (*see table*). The air-c tioning affects mileage, of course, thus increases annual operating cos assuming you trade in your car three years, it will cost you only $ *total* for the air-conditioning optio your Chevrolet Impala 6.

The same is true of an auton transmission. Over a three-year pe a Chevrolet Malibu Classic 6 will $264 more to own and operate th similar car with standard transmis (because of mileage difference). Ye automatic transmission means a hi resale price three years hence— more. So the total cost to the d of having a less efficient auton transmission is actually a net gai some $75.

Small wonder, then, that most n fleet operators opt to put quite a accessories on their cars. They more to own and operate each year, most of that cost is recouped when car is resold.

What it costs for the extras

Here is what it will cost each year to own various 1981 Chevys, equipped with various options. All costs are based on three-year, 60,000-mile use. Expenses include gasoline at $1.60 per gallon, oil, maintenance, tires, licensing, depreciation, financing and insurance. Costs also include standard accessories—power steering, power brakes, tinted glass and AM radio.

Chevrolet model	Manual trans	Manual with AC	Automatic	Automatic transmission: with AC	Automatic transmission: with cruise control	Automatic transmission: with AC, cruise contr
Impala 6-cyl	—*	—*	$4,880	$5,013	$4,903	$5,040
Malibu Classic 6-cyl	$4,589	$4,720	4,677	4,801	4,699	4,820
Citation 4-cyl	3,998	4,142	4,133	4,289	4,154	4,307
Chevette 4-cyl	3,620	3,761	3,733	3,875	—*	—*

*Option not available.

Source: Runzheimer & Co

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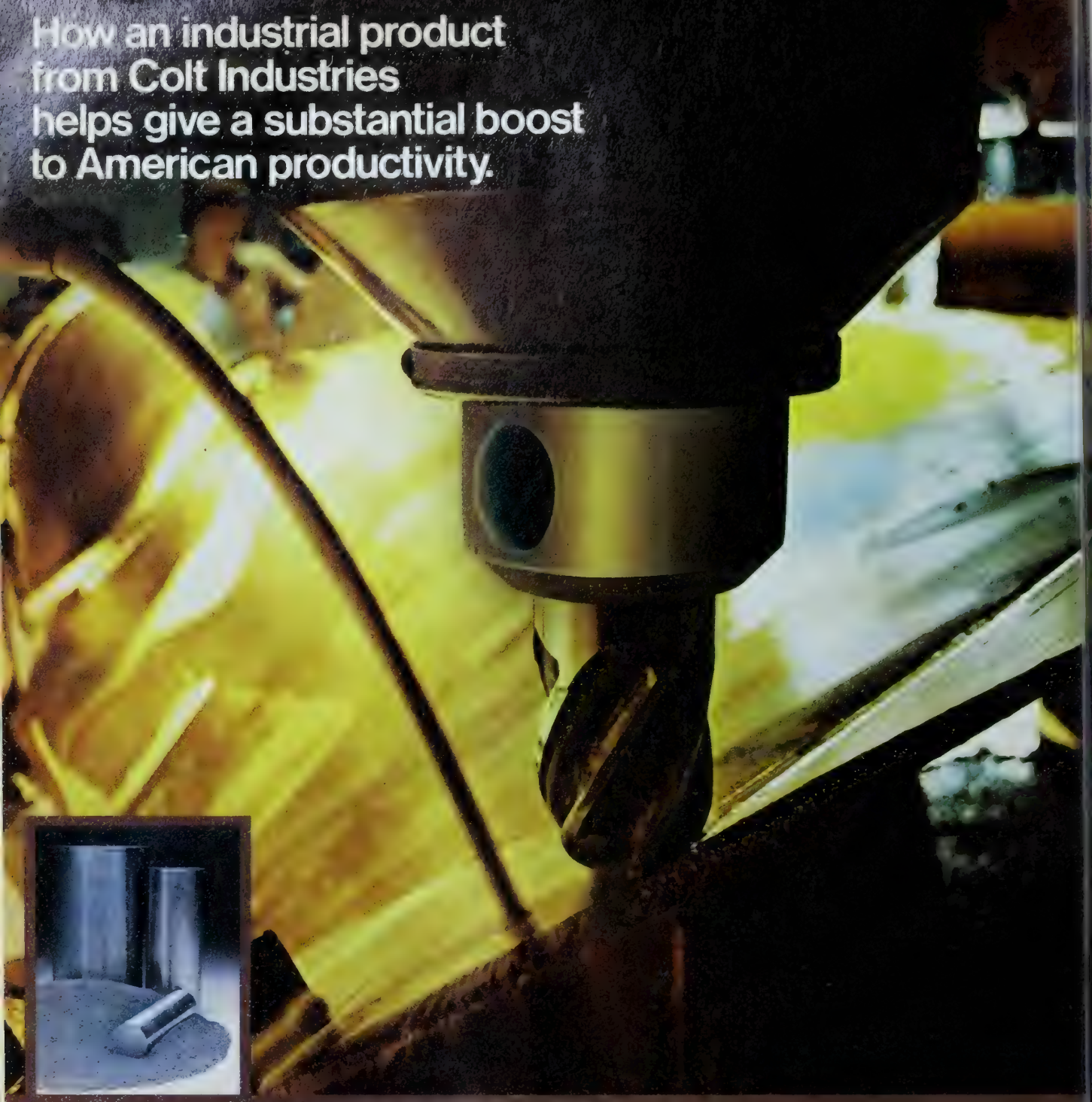

New, super high speed steels produced by our Crucible Specialty Metals Division are helping the nation's toolmakers turn out durable metal-cutting tools that produce more parts—and produce them faster. Our Crucible Particle Metallurgy process produces a completely uniform steel structure, so that tools made from our CPM steel perform the same way every time. There's longer tool life and less tool maintenance, resulting in significantly higher productivity. With process and product improvement like this, it's not surprising that our Crucible divisions are leaders in specialty steels. Or that Colt Industries is a leading supplier to the industrial sector of the U.S. economy. For our latest financial reports, write Colt Industries Inc. Dept. BB, 430 Park Avenue, New York, NY 10022.

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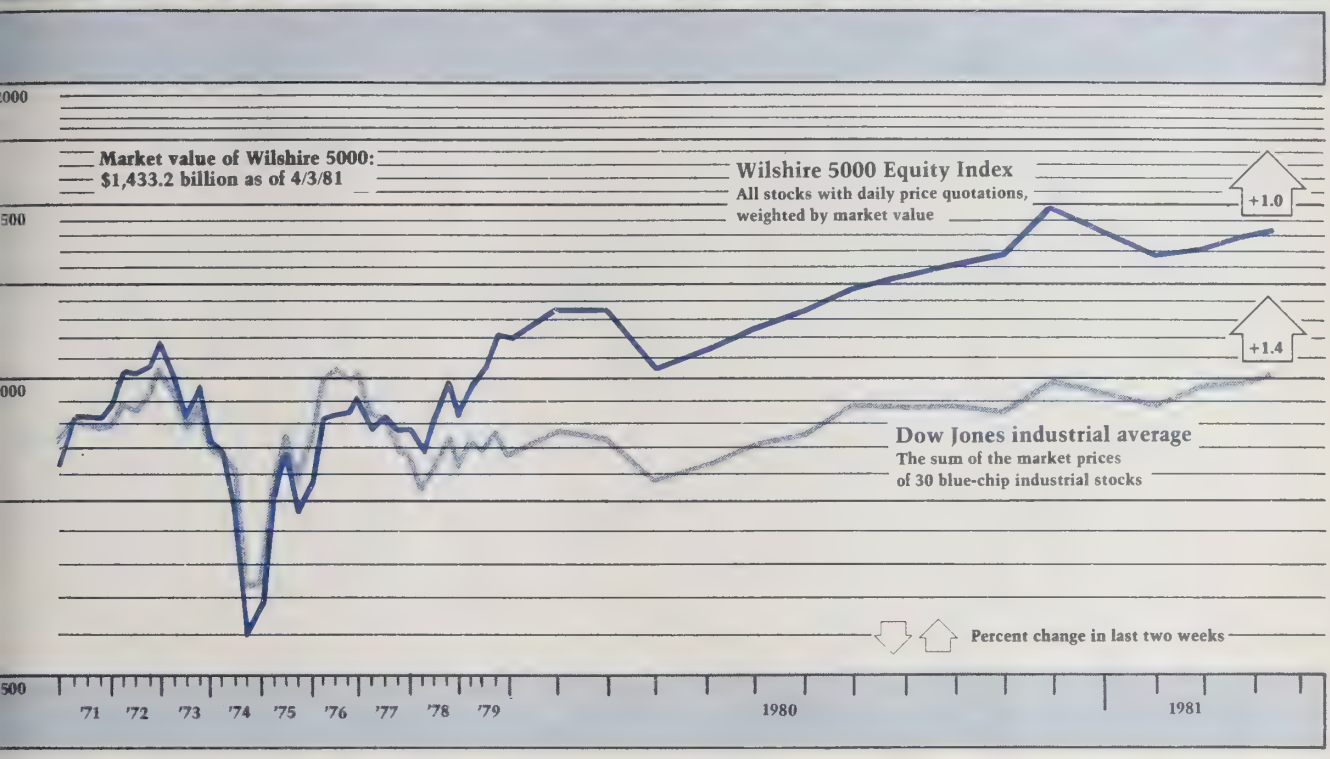
The Forbes/Wilshire 5000 Review



The Dow is sending false signals. It is now outpacing he Wilshire—at least over the most recent two weeks. 'hat's when Wall Street's most quoted indicator regular- y closed above the magic 1000 mark. Sober-sided inves- ors, however, need more than just a four-digit Dow to uel their optimism. Much of this recent rise comes from spurt in just one stock, American Can. Its share price umped by 30% in the wake of recent divestiture propos- ls. Such is the stuff of solid market advances.

Over the longer four-week period, however, the index- s are behaving largely as they did in 1980. The strongest ains are coming from the ASE and NASDAQ, with NYSE blue chips bringing up the rear. The big winners of the moment are companies that did so well last year—high volatility, high P/E, high growth issues. One month ago, of course, the trend was just the opposite.

The sudden turnabout typifies Wall Street's overall confusion. Investors have fast-changing and contradictory feelings about the future. One moment interest rates are falling and stocks surge ahead. Two days later, inflation is rampant and stocks collapse. Nobody is really sure what's happening, so everybody changes his mind at the slightest provocation. Result: The market manages a succession of short, impressive turns—and never really moves.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	4.9	4.4	4.9	9.6	6.4
in last 52 weeks	35.9	28.4	34.8	55.7	56.3

Stock performance based on five key investor yardsticks

Percent change	Volatility *		P/E Multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	9.3	4.9	7.2	6.0	4.7	9.0	8.6	6.3	6.8	9.0
in last 52 weeks	85.7	25.1	86.5	37.1	20.8	60.8	69.2	38.8	43.0	58.8

A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 4/3/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Keep your eye on the top row of charts. Since 1981 began, Wall Street has been on the prowl for new leadership. Now, each of these groups—capital goods, consumer durables and nondurables—is posting impressive gains. What's more, if the concepts of technical analysis are any guide, trend lines are robustly bullish.

The solidest performance, of course, still comes from the transportation sector. It may even surge above last year's highs: Airlines are popular once again, and the resource-rich rails are gaining back some of the ground they gave up when energy stocks collapsed last year.

That debacle may be over. But consider this: Oil stocks have performed worse over the past 52 weeks than any other groups except finance and utilities.

Note: All data for periods ending 4/3/81. Prepared by Wilshire Associates, Santa Monica, Calif.

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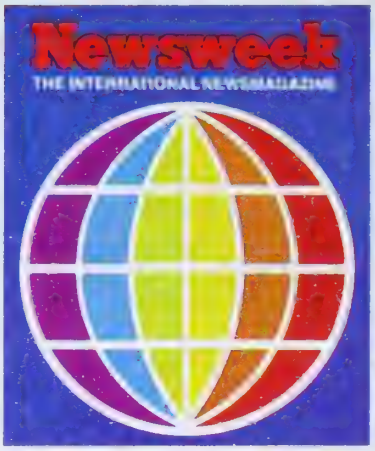
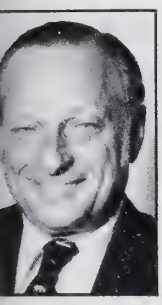


A MAGAZINE, NOT AN EDITION

mild case of takeover fever is giving the ond market an interesting glow.

WHEN BBBs BECOME AAAs

By Ben Weberman



WHAT IS NICER than owning Kennecott Corp. common at 26 when Standard Oil of Ohio says it will pay $62 a share subject to shareholder approval in May? The stock quickly runs up to 54. You more than double ›ur money overnight.

Most people aren't aware of it but ›me of this excitement spills over to the bond market.

Standard Oil Co. of Indiana took over yprus Mines Corp. after offering ock and cash in September 1979. At at time, the Indiana Standard debt as rated Aaa by Moody's and AAA by andard & Poor's—the two services at evaluate the prospects for timely ayment of debt and principal. Cyprus as rated Baa and BBB by the agencies.

Ratings of Baa and BBB are characrized by the agencies as the lowest nvestment grade." In today's mart, a long-term Baa-rated bond would ave about 1.5% more interest than Aaa-tagged issue.

Indiana Standard needed about a ear and a half to decide to stand hind the Cyprus debt. When it did, e backing of Indiana Standard raised e quality tag on Cyprus credit to aa. Just before the March 1981 ove, you could have purchased a Cyus 8½% sinking fund debenture due 2001 for 58 to yield 15.2%. At the me time, an Indiana Standard 8⅜% benture maturing in 2005 was sellg at 65½ to yield 13.2%.

The two issues are not strictly comrable, but it is safe to say that the yprus obligation was undervalued by or 11 points. That's the equivalent a 12% appreciation in price due to ange of rating.

A potential California Standard-Amax deal would link an Aaa-rated oil giant with an A-rated metals miner. In today's market, the SoCal 8¾s due in 2005 trade in price to yield 12.8%. An Amax 9⅜% debenture due in 2000 carries a market yield of 14.3%. If the merger goes through and if the oil company agrees to assume the miner's debt, look for a big price jump in the Amax issue. A 14.3% bond that moves to a yield of 13.2% would gain roughly 8 points.

Of course, not all of the mergers carry only good news. When Kraft, Inc. joined with Dart Industries of drug and plastic note, Kraft carried the highest rating, AAA. Dart, on the other hand, held a so-so rating of A. The rating agencies decided that neither sector of the new company overwhelmed the other. As a consequence, the rating was split down the middle. Dart's former debt was lifted from A to AA, while the AAA-quality obligations of Kraft were dropped one notch to AA. The investor who purchased 13.5%-yielding Dart 7½% debentures due in 1996 came out much better than the one who acquired Kraft 6⅞% obligations maturing in 1996 priced to yield 11.9%.

BECAUSE the return is so low, buying U.S. savings bonds can be recommended only for those who feel the need for forced savings, for a long-term automatic savings program. A likely increase in the rate to 9% from 8% on May 1 would enhance the appeal, although at 9%, the savings bond is still no bargain. A Mar. 31 auction of conventional seven-year Treasury notes carried an average yield of 13.34%.

As with all Treasury issues, interest is exempt from state and local income taxes. In addition, savings bonds do carry a major benefit. Federal taxes on interest can be deferred until the bond is redeemed. Hold the bond until after retirement, when income and tax rates drop for most of us, and the interest can be accumulated almost as generously as with a Keogh or Individual Retirement Account plan. However, that provides scant compensation at a time when you can buy high-grade, tax-exempt bonds and get an aftertax yield of 9% or better.

THERE'S ALWAYS a gimmick. Latest in the bond market is the original-issue deep-discount bond. These are not bonds that go to a deep discount because of rising interest rates or falling creditworthiness of the borrower. They are brand-new bonds sold at a deep discount. There's been a lot of these lately and they've sold well.

Here's a typical one:

In mid-March Transamerica Financial brought to market $200 million (face value) in A-plus-rated debentures carrying a 6.5% interest coupon. To compensate for the low coupon, the bonds were sold for $480.67 per $1,000 bond. The current return is 13.5%; return to maturity, 13.8%.

On the same day, A-quality Greyhound Leasing & Financial Corp. brought to market $75 million of 14⅞% 10-year notes. The price: par, 100 cents on the dollar.

Which of the two is the better buy? Depends on what you want. The Greyhound notes pay a better return, and the market exposure is a lot lower in a 10-year bond than a 30-year bond. But the Transamerica bond would not be called before maturity unless interest rates came way, way down.

The appeal of the otherwise conservative Transamerica bonds is a speculative one. If interest rates go way down, the bonds should go way up in price, enabling the holder to take a substantial capital gain well before maturity. (Don't think, however, that there are any tax advantages in buying the deep discounts: Internal Revenue has ruled that the annual increase in value from $480.67 to $1,000 over 30 years is taxable income, even though no income is received.)

So the real tradeoff between the two issues is capital gain potential and call protection on the one hand, versus a better interest rate and less market risk on the other hand.

Now that deep-discount bonds are accepted, can zero-coupon bonds be far behind? At least one such bond issue has been placed privately for a soft-drink company. An investor would pay about 27 to the company to receive a $100 par value bond due in 30 years. No money would change hands in the interim. No interest, no sinking fund. That's faith for you. ■

n Weberman is economics editor of FORBES *agazine.*

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There is likely to be a shift to a new set of winners in the wealth-creation sweepstakes.

THE LENDERS' REVOLT

By Richard B. Hoey

LENDERS are up in arms after enduring 40 years of losing the purchasing power of their assets. Forty years ago today, four-year government bond yields were slightly less than 1% and Treasury-bill yields were one-tenth of 1%. For the following 40 years, while interest rates lagged inflation, the real wealth of lenders was expropriated by inflation, while many of the most aggressive borrowers became multimillionaires.

But now the lenders are in revolt. Big institutional lenders are shortening maturities and demanding a piece of the action in the form of equity kickers. Small savers are shifting their funds out of passbook savings accounts into higher-yielding money market funds. As a result, borrowers are being forced to pay much higher interest rates.

Because of inflation and high taxes, the real yield to lenders has been negative in recent years. So has the aftertax interest burden on borrowers. It's one reason we're in the mess we are in: In an environment of negative real aftertax yields and accelerating inflation, it's easier to build net worth by hoarding real assets than by investing in financial assets, which provide funds for productive investment.

Things are changing, though. Pretax real yields are now high and aftertax real yields are positive for borrowers in low to moderate tax brackets. As marginal tax rates and inflation drop, it will be possible to prevent a return to an inflationary negative real yield environment, even with declining interest rates. In addition, we expect direct incentives for financial investment to be legislated by Congress over the next several years. With a rise in real yields and passage of laws to stimulate investment, financial assets may begin to outperform real assets. That would be a sharp break with the recent past.

House prices have tripled on average since 1967. Someone who borrowed three-fourths of the purchase price of his house in 1967 at a mortgage rate of about 6.5% has had an increase of about 11 times the value of his equity in the house. That's much more than the 2.6 times increase in consumer prices over that period.

In the meantime, his mortgage might bring the lender perhaps 65 cents on the dollar today if that lender wanted to sell it. But that's only worth about 25 cents on the dollar in constant 1967 purchasing power. I suspect that there may be one last cycle of house price inflation as a result of reduced construction of new homes today and falling mortgage rates over the next several years.

But unless the U.S. moves into hyperinflation—which we doubt—the days of the sure thing for leveraged borrowers may finally come to an end in the next several years. Currently, the aftertax mortgage interest rate for someone in the 40% bracket works out to about 9%, close to the trend rate of inflation in the U.S. If the future rate of gain of house prices is about the same as the aftertax cost of borrowing, then the great middle-class real estate bonanza may draw slowly to a close, but without any sign of the great dramatic collapse in home prices that the superbears forecast.

All the major winners in the wealth-creation sweepstakes in the last two decades were beneficiaries of accelerating inflation: Spot crude oil prices increased about 30 times, gold increased roughly 25 times to its peak and silver increased more than 50 times to its peak.

We believe that there is likely to be

Richard B. Hoey is a vice president, economist and investment strategist at Bache Halsey Stuart Shields.

shift to a new set of winners in the ealth-creation sweepstakes in the xt decade. Common stocks are a ime candidate. In the last 20 years, andard & Poor's 500 Stock Price dex has only doubled. There's a ghting chance that the persistent upard shift in the basic inflation rate ll be halted in the next decade withit a cataclysmic credit collapse. If so, e returns on common stocks in the xt decade are likely to be excellent. So, now that everyone in America ows for sure that the smart thing to is to go deeply into debt to buy flation-hedge assets, it's probably ne to do the opposite. Inflation exctations among investors are graduy shifting from inflationary to disflationary. This can be seen in the ucture of the stock market in the st several months as oil stocks fell, hile the broad market rose. We conue to accumulate evidence of this sinflationary shift in expectations our "decision-makers' polls" of key stitutional portfolio managers. For ample, they have raised their estiates of the odds in favor of a balced budget within the next five ars from 1 out of 4 to 50-50 just in e last six months. That represents a ajor improvement.

Despite the recent advance in stock ces, many stocks are available at a odest valuation. We still favor the od stocks. For example, *Pillsbury* (44) ould earn $6 this fiscal year and .70 next fiscal year, for a price/earngs multiple in the 6-to-7 range. The ng-term trend of earnings growth is ely to be near 15%.

We still favor the Florida bank ocks. One attractive value is *Atlantic ncorporation* (20). The company rned $2.95 in 1979, $3.28 in 1980 d should earn about $3.70 this year. ok value should reach about $29 by ar-end 1981. The company has a nservative loan-to-deposit ratio, d sells at about 5.5 times this year's imated earnings.

Black & Decker (18) was once a glamr stock, with a sky-high price/earngs multiple. But it's now more reably priced. Earnings per share re $2.14 in the fiscal year ended ptember 1980 and should drop to out $1.75 in fiscal 1981. But in cal 1982, a surge to approximately is likely. The company's shortm vulnerability to weak foreign nomies is offset by the prospect powerful earnings gains thereafter. think it's a good buy for the ient investor looking for longm capital gains. ■

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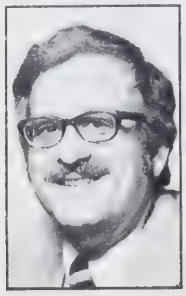
Nobody likes to admit being wrong, and that is what successful commodities traders must do on about six of every ten trades.

NOT AN IMPOSSIBLE DREAM

By Stanley W. Angrist



ABOUT once a year my colleague John Train writes a column that details the evils of commodities trading. Train has concluded, apparently based on the letters he receives, that the game is inherently rigged against everybody, and that it is impossible to win. He is dead wrong. But first let's review why so many people do lose in this activity.

The one strategy that most frequently does newcomers in is the handling of mistakes. In securities you can put your mistakes in a safe-deposit box and no one but your executor will ever know what they were. Since every commodities contract has a time associated with it, mistakes cannot be put out of sight and out of mind. They must be recognized (and that means they must be realized). Nobody likes to admit being wrong and that is what successful commodities traders must do on about five or six of every ten trades.

No one ever said that commodities trading is easy, but it is almost a zero sum game. That means that for every dollar made another dollar is lost; except for what drops through the cracks to the broker. (More on that later.) That does not mean, however, that for every trader that loses a dollar, another trader makes a dollar. The commodities markets, in my opinion, mirror life—the many to a large extent wind up supporting the few.

A recent study of 21 publicly offered commodities funds was done by the National Association of Futures Trading Advisors. It covered a three-year period ended Dec. 31, 1980, and revealed that 13 of these 21 funds were profitable over this period. The average annual return to the investor was 17%. Commissions were about 10% of the average equity of the funds; management and incentive fees were about 8% of the average equity. Commissions and fees are considerably higher than those normally experienced in securities trading, but the average rate of return is also higher.

There is no doubt in my mind that the majority of individual commodities traders lose money. They are unsuccessful because they lack the discipline to carry out a successful trading program. But the story is very different indeed when one examines the track records of the individual professionally managed accounts, pool accounts and publicly offered commodities funds. By and large these endeavors are profitable. Why? Because their managers have the experience and the discipline to manage risk funds in a highly speculative activity. The evidence for this statement is publicly available. Managed Account Reports (200 Joseph Square, Columbia, Md. 21044) systematically evaluates a number of professional money managers. Normally, each month a different manager's fund or pool will be evaluated in depth. Furthermore, ular results are presented on th funds or pools that are kept ur continuous monitoring. So inves have access to an independent sou on professional money managers.

In the table I have presented trac results for three privately mana pool accounts and three publicly fered commodities funds. These w chosen from the ones monitored Managed Account Reports. In e type of fund I selected one with best 12-month performance, worst 12-month performance and near the middle. All percent changes are computed after the p ment of all commissions, mana ment and incentive fees.

It is very clear from the limi amount of data presented below t not all managers are equally skil But why would one expect them be? The 19 publicly offered fu tracked by MAR had an average crease of 4.2% in January 1981 14.2% for the year ended Jan. 1981. Evidence to date indicates t the privately managed pool accou average profits about 30% higher th the publicly offered funds. This probably so because the private poo which are smaller, can enter and lea the markets without disturbing th as much. The computation of an nual rate of return does not mean t profits are accrued in a nice orde manner. One should expect hu swings in equity as a matter of cour

Trading commodities profitably i difficult and demanding enterpri but it is far from impossible, as l been stated on several occasions this magazine. I hope that the e dence presented here will show wl can be done by knowledgeable a skilled traders. ■

All managers are not created equal

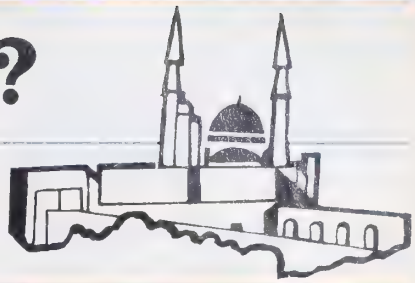
Professional money managers are able to do what most individual traders cannot do—put their emotions aside and take money from the marke consistently. Just as you would expect, they are not all equally gifted.

Name of pool	Start date	Start value	Unit value 1/31/81	Change for Jan. 1981	Change last 12 months	Annual compour return
Private pools						
Capital Commodity Traders	10/74	$1,000	$ 5,027	−16.1%	+30.7%	+29.5
Commodity Trend Fund	1/72	1,000	25,091	+2.8	+50.7	+43.0
T.W. Young Associates	1/78	1,000	4,457	+18.1	+116.8	+64.6
Publicly offered pools						
Aries Commodity Fund	2/80	1,000	1,162	+2.2	+16.2	+17.8
The Future Fund	7/79	1,000	2,579	+10.9	+65.3	+88.1
Harvest Futures Fund II	2/80	970	508	+0.6	−47.6	−50.6

All data from Managed Account Reports *except for annual compound rate of return*

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

Getting your share?



By 1979, the value of Arab imports from the U.S. had grown to $11 billion from only $1 billion in 1970.

Described as one of the most exciting areas of consumerist activity in history, the Arab World also sorely needs and actively seeks arrangements with the financial and investment markets in the West. Arabic-speaking countries must expand and diversify their economies through business alliances with companies in industrialized nations. They are anxious to convert their oil wealth into factories, power, schools, houses, water resources, improved agriculture—in short, a better standard of living for their citizens.

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I feel that everyone needs reserves, and gold has a place in those reserves.

GOLD: A CONTRARY VIEW

By John Train

I'M GETTING interested in gold again, which I last suggested at about $170 (FORBES, *May 1, 1978*). As I mentioned then, it's a speculative football, which you should buy when people want to sell it to you—and vice versa. Today I note a remarkably bearish consensus among the pundits—after gold has already dropped 40%! One should be prepared to continue buying on a scale down though, should the price go on down.

To be sure, far more people own gold now than did in 1978, so another wild runup isn't likely. But I feel that everyone needs reserves, and gold has a place in those reserves. Treasury bills or the equivalent should be one's basic reserves, but after taxes and inflation they often have a negative true return. And municipals, although tax free, start out with a negative return from the first. Gold keeps up with inflation without current tax, and is the only convenient inflation hedge that is always negotiable. There is something wrong with every other "hard" store of value.

Diamonds, for instance, lose a good 30% of their worth if bought from Cartier, carried across the street, and resold to Harry Winston. Gold, on the contrary, trades with an extremely narrow spread. Then, precious stones cannot be divided into handy units. If there is real trouble and you want to raise $1,000, it's troublesome to slice up your ruby. And it's very hard to determine what precious stones are worth, even if they are genuine—unlike a maple leaf or krugerrand.

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters *and* Dance of the Money Bees.

Works of art are an impossible game for the amateur. Their prices are whatever a circle of insiders says they are, and the buy-sell spread is at least 40%. Furthermore, contrary to general belief, almost all works of art decline steadily in real terms from the day they are first sold until they disappear from view altogether.

Land is fine, but you can't carry it along if you have to move in a hurry, and it's all too easy to tax. Indeed, a lot of people pay higher taxes on their houses than one paid in rent in the old days.

Silver is too bulky. While you could carry the best part of a million dollars of gold in a cigar box, the same value of silver couldn't be lifted at all.

About "collectibles" as an emergency reserve, the less said the better. Just try and sell your collection of 19th-century cuckoo clocks during a bank holiday! And clearly they're in a speculative bubble.

So one always returns to gold as the one convenient and tax-efficient store of value—imperishable and easily negotiable under any circumstances, even the most difficult.

The next question is, are we condemned to further inflation, so that gold can be counted on to rise again in dollar terms from whatever level it settles at in its current slide?

I expect that inflation will continue, although Mr. Reagan's team may achieve its goal, which is only to bring down the inflation *rate*. Here is my reasoning:

First, throughout history the prime reason to inflate has been that the state got too far into debt and resolved to pay off its creditors in depreciated coin. That's our situation today. The average family in the U.S. has *direct* governmental and private liabilities of about $60,000, and several times that if you count unfunded indirect governmental obligations, notably Social Security. That debt cannot be paid off in real terms. Ultimately it has to be extinguished, most probably *via* inflation.

Another cause of inflation throughout history has been wartime expenditures. We are not at war, but we must vastly increase our military spending to protect our vital interests, lest we be forced into war on adverse terms. The Russian bear is out of the cage, and we will have to "arm to parley," as Churchill used to say. It's going to be a very expensive affair.

Then, the oil problem isn't going away. We will be transferring out of the country about $100 billion a year that we didn't have to transfer before—10% of the value of all the stocks on the New York Stock Exchange, to give an idea of it. Synfuel will only start to help significantly later in the decade.

Finally, our national character has weakened compared with that of some other countries. We exalt freedom and leisure, instead of competence and the obligation to work hard for family, employer and community. When people want more out of the system than they put in, the body politic—like a starving person—runs a fever; that fever is called inflation. And, in a vicious circle, inflation contributes to the decline of the civic sense.)

A column I wrote last year called "Inflation: A Moral Fever Chart," sustained this thesis. To my surprise, I received a letter from the White House signed by the President's chief inflation fighter, saying that he fully agreed. It's a commonsense argument. Such great trends eventually change, but it involves experience and pain. Max Shapiro's recent book, *The Penniless Billionaires*, Times Books, $15, describes the process.)

To sum up, I am not optimistic about really controlling inflation, and am pessimistic about eliminating it. There's not much of a constituency for stopping inflation entirely.

And who can say there will never be an international political or economic crisis? The possible causes are there to see.

On a tactical level, the pundits generally don't point out that much of the recent decline in gold has really just been strength in the dollar, linked to recent high interest rates here. In Swiss franc or deutsche mark terms, for instance, the movement has been less remarkable. I distrust economic forecasts, but if interest rates continue to drop, then the dollar will weaken somewhat and gold will rise in dollar terms.

So, for some of one's reserves, gold remains attractive.■

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Short-sellers have been employing a new strategy, and an unusual tenacity, in recent months. It could lead to an upside blowoff if the market continues strong.

RUNNING FOR COVER

By Srully Blotnick

"I GUESSED wrong," said Jimmy. "I thought the market would bang its head against the ceiling one or two more times and then fall off its ladder."

Sandy concurred: "There is enough bad news around to make anyone want to hedge. I've been certain all along that the market would soon be heading south." Note the tone of doubt: "I thought," "I've been certain." Past tense.

For the first time in a year, the majority of shorts in my sample are thinking of running for cover. After having been confidently bearish for months, Jimmy, Sandy and most of those on the short side finally have begun to consider cutting some of their losses. "I'll have another opportunity to go short at much higher prices and really clean up," said Jimmy. Sandy's view is similar: "Enough is enough—for now. But I'll be back."

On balance, these two are not unhappy. Their primary short positions were in the oil sector, and—thus far at least—their profit-and-loss picture for the year has brought them to the breakeven point. "I made a bundle on Murphy's ride down," Sandy said. That is true, but it leaves out the flip side: He lost a small fortune earlier as the oil stocks soared. Yet he and Jimmy have more than made up for the red-ink bath they were taking late in 1980, since they shorted the oil stocks right to their peaks.

Most of the investors in my sample, however, weren't so lucky. Mark is typical. He simply took the package approach to shorting. "I didn't want to short Chrysler, International Harvester or any of the other sitting ducks," he said. "Too many people have pounded them already. Look at Chrysler's current short position: 2.1 million shares! I picked a few others instead that I think have become overpriced—Kodak, United Technologies and Union Carbide—and would sink if the market declined broadly."

Henry's strategy was even more typical, for he avoided high-yielding stocks. (Keep in mind that the short-seller must pay the dividend to the buyer, who cannot be expected to be penalized—in yield terms—just because he bought the issue from someone who is shorting it.) "I chose Macrodyne—which I think is a dog—and Delhi Oil on the American Exchange," he said, "and National Semiconductor on the Big Board."

One of the most fascinating developments in recent years has been precisely the wider range of selections now being used by short-sellers. In the late Sixties and early and mid-Seventies, it was common for investors who decided the market had topped out to choose one or at most two issues and short them. The stocks decided upon usually represented the essence of the major fad of the times. For instance, at the height of the conglomerate craze in the late Sixties, Ogden and LTV were favorites for the short-sellers, who did very well when the stocks sank rapidly. No more: Now short-sellers, like ordinary investors and speculators, are interested in diversification.

The recent shift in the dominant approach from rifles to shotguns, from one issue to as many as ten, makes the opportunity to short an entire index significantly more appealing than it has ever been before. As Henry put it: "I'd love to short the Amex, instead of having to try to *guess* which stocks there are most vulnerable."

There is, of course, a price to be paid by the optimistic investor (who is going long) for diversifying his port-

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olio. Of ten stocks he chooses, if one r two skyrocket by 100% or 200%, he return on the portfolio as a whole nay be very high indeed. Nevertheless, the laggard eight or nine decrease he average gain. Diversification reuces your risk *and* your reward, by ringing the portfolio's performance nore in line with market averages.

It's the same story on the short ide, but has proved to be something ess than pessimistic investors (who ad gone short) bargained for. When itton plummeted from 120 to 6 at ne end of the Sixties, the short-seller's ride was exhilarating—and profitble. Diversification would merely ave *decreased* his performance, since ne market as a whole, as measured by ne S&P's composite between Deember 1968 and May 1970, fell only 9%, not 95%.

The upshot: Short-sellers not only ave been seeing diminishing gains in ecent months because of their shotun strategy, they have been displayng uncharacteristic tenacity, mainining a short position far beyond the oint at which they typically closed it ut in the past. You can see why: If ou bet a bundle by shorting a stock at 0 and it zooms to 80, you are likely o be scared into covering; not so if 's only one stock out of ten or so that ou are short, and if you are showing rofits on some of them.

What has this got to do with the tock market as a whole? Just this: Ve all know that the existence of a rge short position in a stock can be ullish; it represents potential buying. Vith the new situation, with the nort-selling widely dispersed across ne list, the potential buying is simirly spread across the entire list.

In short, the possibility exists of a owerful upside blowoff as increasing umbers of short-sellers—who up to ow have been sticking to their uns—lose their nerve and begin covring a wide variety of stocks. At midIarch the New York Stock Exchange nort-interest figure was 74 million nares. But the number masks, rather nan reveals, the basic dynamics.

If the market continues strong, and nally stampedes the shorts into a ull-fledged covering binge, there'll be nore buyers chasing more stocks—elatedly—than has been the case in ne past. Many are now convinced nat, as Henry put it, "a thousand on ne Dow is the floor, not the ceiling." Once that view becomes widely nared, we're likely to see a significant short-term top, as a major upside orce is expended. ■

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People aren't as dumb as the economists seem to think they are. That's why . . .

ECONOMETRIC MODELS DON'T ALWAYS WORK

By Ashby Bladen

WHEN David Stockman, President Reagan's Director of the Office of Management & Budget, hired the previously obscure Claremont Economics Institute to predict the results of the new Administration's policies by running them through its own econometric model, he created a major furor among the country's professional economists. Most of the issues are technical, but there are some that should concern all of us.

I'll start by pointing out that an econometric model is simply a series of algebraic equations that record how changes in the important economic magnitudes have been related to each other in the past. There's an obvious fallacy in that approach to forecasting. It is this: Occasionally something happens that changes those fundamental relationships; then the forecast goes sailing off into the wild blue yonder. This is what led to the econometricians' obsession with recession during the powerful and sustained expansion of 1974-79. For many years the savings rate in the U.S. had fluctuated narrowly around an average of 6½% of personal disposable income; and so the models assumed that it would always be about 6½%. This led the econometricians to predict a recession that never came.

It never came because ordinary people aren't as stupid as the econometricians figured. By the mid-1970s people had come to realize that a rising and now inflation-proofed level of Social Security benefits made personal saving less necessary, and accelerating inflation made it foolish. So during the last four years they have reduced their savings rate to about 5½% of disposable personal income. But the models tried to push it back up to 6½% by forecasting a fall in personal spending and, therefore, a recession. The trouble was compounded by the fact that most econometricians are mathematical types who are fascinated by algebraic models but aren't very interested in what real people actually do out there in the real world. So it takes them a long time to wake up to fundamental changes in people's habits.

David Stockman has a different problem with the popular econometric models. Their equations show that inflation cannot be reduced without substantial unemployment; but the Administration proposes to substantially reduce the rate of inflation by creating greater incentives to work at increasing the supply of real goods and services available to be purchased. So Mr. Stockman went out and found a model that shows that Reaganomics will work.

No one outside the Claremont Institute has yet had a good look at the equations in their model, so it is impossible to analyze accurately how they differ from the more prominent models. However, it is known to be a monetarist model, in which the main cause of changes in the rate of economic growth and the rate of inflation is changes in the growth rate of the money supply. Several of the Administration's key policymakers are also monetarists, so let us take a look at these theories.

Keynesians and monetarists alike implicitly assume that, in order to make a loan, you first have to have the money on hand. They assume, therefore, that if the rate of money growth is moderate the rate of growth of total debts will also be moderate and noninflationary. That sounds reasonable enough, but the practical managers of financial institutions know that it simply isn't [illegible] As long as we already own a portfo[illegible] of loans, and someone who want[illegible] new loan is willing to pay more th[illegible] the going rate of interest, we [illegible] happy to accommodate him. We [illegible] that by selling some of the loans [illegible] already own on the market, or ple[illegible] ing them at the bank as collateral [illegible] a loan to us, and then we relend h[illegible] the money.

As long as the financial markets [illegible] liquid, the system can create an in[illegible] nite amount of new loans more or l[illegible] regardless of the growth rate of t[illegible] money supply. (I say more or less [illegible] gardless because the process is in p[illegible] circular—some of the newly creat[illegible] evidences of debts will be counted [illegible] money under some definitions of t[illegible] money supply.) The economic theo[illegible] ticians have simply failed to grasp t[illegible] implications of the liquidity of fina[illegible] cial instruments.

Why is it that the financial marke[illegible] are usually liquid? The Cent[illegible] Bank—in this country, the Fed—m[illegible] bilizes the credit of the National Sta[illegible] to keep it liquid by making loans [illegible] financial institutions and buying [illegible] curities from the market. But as lo[illegible] as it does that, and as long as peop[illegible] want to borrow and buy real things [illegible] order to stay ahead of the inflatio[illegible] the rate of inflation will accelerate.

The only thing that is likely [illegible] break this vicious circle is a financi[illegible] crisis that leaves people more afraid [illegible] bankruptcy than they are of inflatio[illegible] and thus restores prudence and mo[illegible] eration with respect to borrowing a[illegible] lending. It will be a painful expe[illegible] ence, but it is absolutely essential [illegible] we are to avoid a progressive accele[illegible] tion of inflation into eventual ruino[illegible] hyperinflation.

I have inquired as carefully as [illegible] could into the views of the Reag[illegible] Administration's economic polic[illegible] makers. They have not develop[illegible] what I would consider to be an ad[illegible] quate theory of the financial system [illegible] but several of them realize as a pract[illegible] cal matter that they will not get infl[illegible] tion under control without a cris[illegible] that will slow down the rate of cred[illegible] creation. Once you accept that thesi[illegible] it is politically desirable to get t[illegible] crisis over and done with as long b[illegible] fore the 1982 congressional electio[illegible] as possible. Sound financial theory i[illegible] dicates that a crisis is inevitable soo[illegible] er or later. My political guess is that [illegible] is imminent. As I have said repeated[illegible] in past columns: Stay liquid if yo[illegible] want to be a winner, rather than [illegible] loser, when the crunch comes. ■

Ashby Bladen is senior vice president-investments for the Guardian Life Insurance Co. of America, and author of How to Cope with the Developing Financial Crisis.

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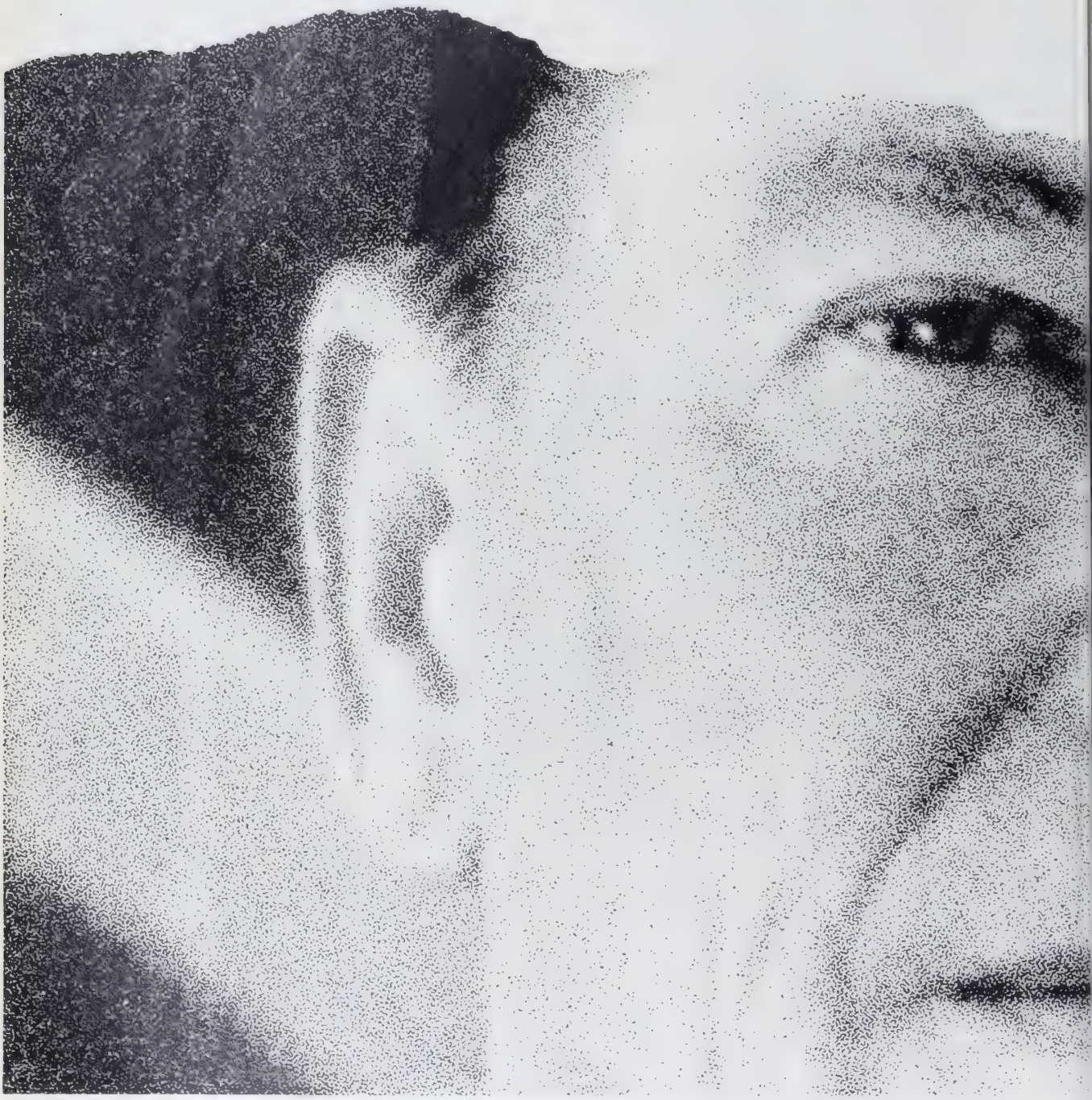
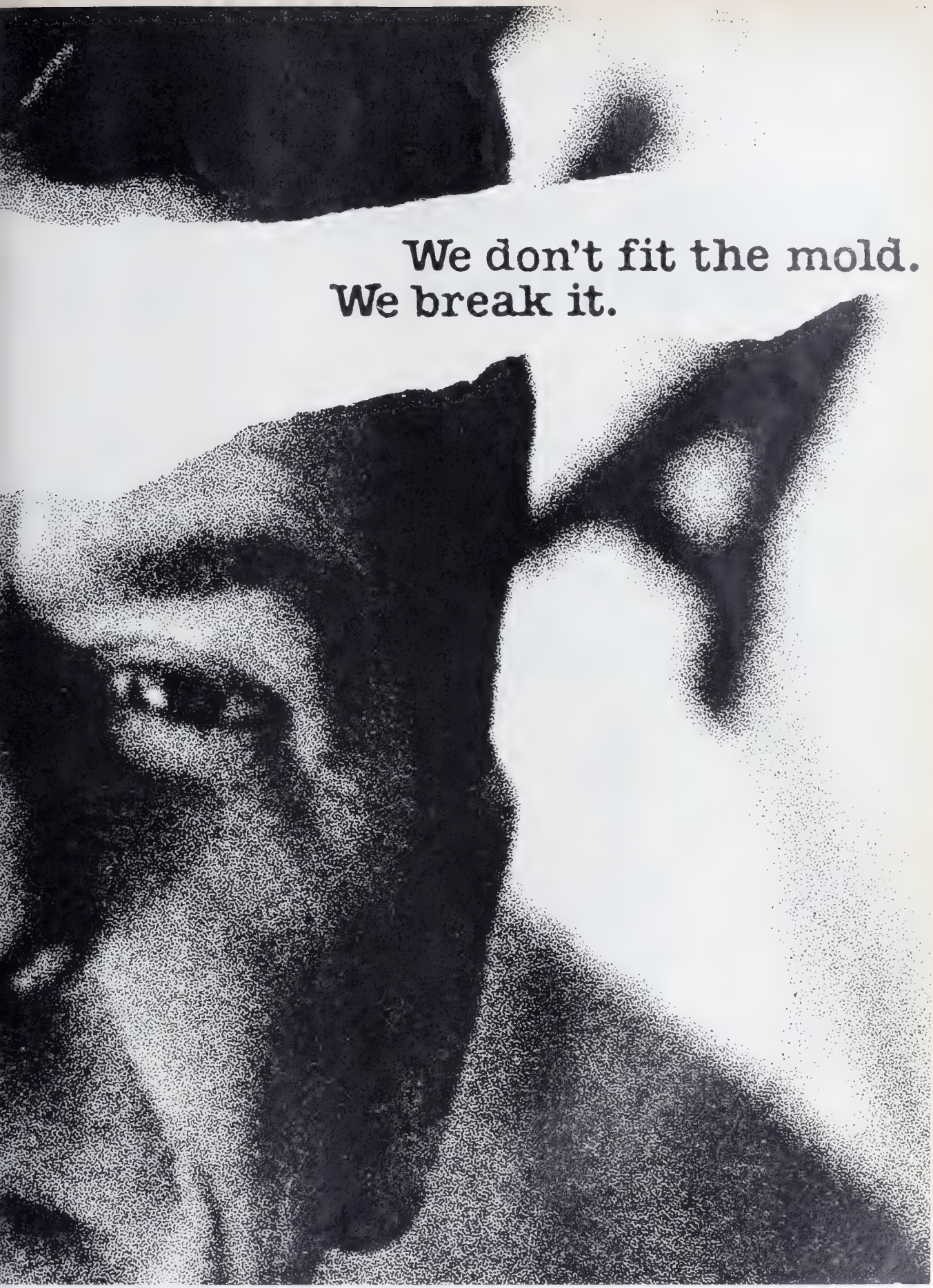




Newsweek®

Oil-patch wisdom says the number of new wells will grow and grow. The number of rigs to drill them, however, may grow even faster.

Derricks, derricks everywhere

By Toni Mack

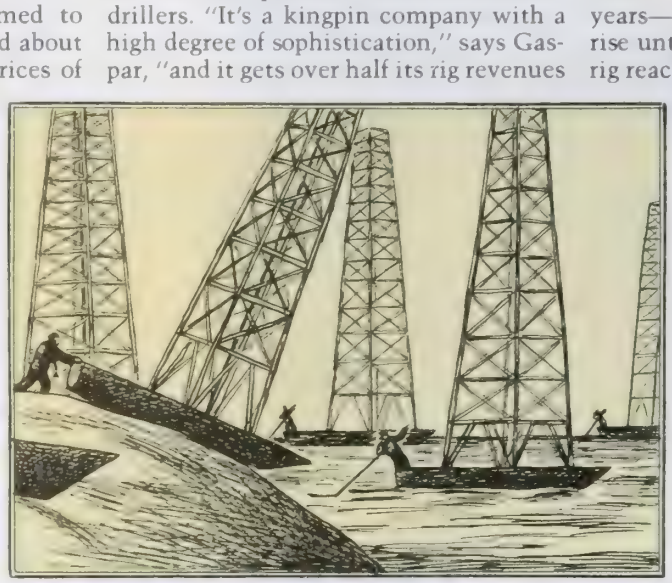
At the Southwest Energy Conference in Costa Mesa, Calif. last month, Chairman Rudy Munzer of Petrolane, Inc. spoiled the fun by predicting that by 1983 as many as 400 onshore drilling rigs would be idle. "I thought the other speakers were going to burn him at the stake," chuckles one observer. "It was heresy. Why, everybody knows that the drilling market will go onward and upward forever!"

Until recently, investors seemed to agree. Domestic drilling increased about 60% in the last two years but prices of onshore drilling stocks have, on average, more than quadrupled. Price/earnings multiples of companies like Helmerich & Payne and Noble Affiliates neared 30 late last year. Now, however, some 1,600 to 2,000 onshore rigs should flood the market over the next couple of years, and the prospects for the industry are decidedly murky. Shudders one analyst: "I wouldn't touch a land driller with a 10-foot pole."

No one in the oil patch actually predicts demand for rigs will decline. The problem is that supply is growing too fast. The number of onshore rigs could increase by up to 50% by 1983—in part because of tax-shelter financing pumping new money into the business. Much of the current drilling, on the other hand, is being done in old reservoirs that became economic after oil decontrol. That backlog of known reserves could dry up sometime next year. Munzer predicts the rise in drilling will then settle to a more decorous 7% to 8% a year. Hardly the stuff of top-tier earnings multiples.

What's a poor investor to do? Advises one analyst, "Sell your land drilling stocks at any rally in the market—especially smaller, newer companies with nothing else to fall back on." Kenai Corp. and Unit Drilling are examples he cites.

There are, of course, exceptions. Helmerich & Payne and Noble Affiliates are popular on Wall Street because oil and gas exploration and production provides a third and a half of their respective earnings. George Gaspar of Milwaukee's Robert W. Baird & Co. favors Parker Drilling, which specializes in deep drilling—15,000 feet and below—and thus has less competition than the shallow drillers. "It's a kingpin company with a high degree of sophistication," says Gaspar, "and it gets over half its rig revenues from the less crowded overseas market."



The future is less clear for the offshore drilling industry, which includes such recent highflyers as Global Marine and Santa Fe International. Higher building costs—up to $100 million, *vs.* $10 million for a land rig—and longer construction times make for a lengthening in the buildup of supply. Ask experts whether a glut of rigs is imminent, and the answers range from "The market will stay strong for years" to "It's a given." And often, in between, "Gee, it's hard to tell."

Over 220 offshore rigs are on order today, enough to fatten the fleet by over

40%, and more orders are comir most of those rigs will go to long-term contracts, they may market overhang reminiscent mid-1970s. That was when Brit geria, Indonesia and Malays slapped heavier taxes on oil cor which promptly fled. As new r delivered, the day rates fell to their former highs. Stock prices t too. Earl Stolz, an industry wa New Orleans-based Howard W bouisse & Friedrichs, points out shore drillers' multiples dropped average of 27 to 7 in the fi months of 1974.

It's unlikely that any comin turn will be as severe. But at l offshore driller thinks that busin is due for a change. "There's no my mind that contractors are ov ing now," says President Hugh Ocean Drilling & Exploratio world's largest offshore driller. wryly: "However heroic an ef customers make, we at some p ourselves in."

Marks Hinton, an analyst at H Underwood, Neuhaus, agrees: "A offshore rig utilization gets above and it got there during the p years—then building surges and c rise until the internal rate of retu rig reaches 15% that holds until r start coming onto the and then day rates s drop." Hinton figures dri which generally drill in d ter, will be the first to jack-ups will follow. Ne on-order rigs are jack-u expects a softening in th ket by year-end 1983. S mersibles, which drill in and rougher water and c 3 times as much as jack- coming onto the marke slowly and thus should h year longer.

Still, there are two mo of good earnings grov come for the offshore dri it's hardly bail-out time Offshore drilling stocks took a early this year, some by as much but prices are already swinging u Western Co. of North America broker's darling now because 76 revenues and 68% of its operating come from well completion and s tion. SEDCO, most of whose drilli enues come from the more secur submersible market, is also popu an earnings multiple of 32, it's p but for a few good reasons. One is also has a 10% interest in a pro oilfield off the Ivory Coast.

The most conservative advice,

o consider locking up profits on ; company stocks now—especially qualify for capital gains treatment. pens again and again," says Philip of F. Eberstadt & Co. "People as- nat where I've *been* making money, making money." There's always a pull back—even in the oil patch.

Pick a Dow, any Dow

e falls in the forest and nobody does it make a sound? Not in the s of Wall Street, apparently: The nes industrial average, the mar- most venerable indicator, has d its most venerable bar- emaining unwaveringly the 1000 mark for a our-week period.

old Dow Jones industrial , that is. Back in June the Dow Jones folks d the 30 stocks that make ndex, replacing Chrysler smark with IBM and Such shuffles come peri- y, says Senior News Editor Stabler, who oversees anges, because "we try to e list of stocks generally the importance of differ- ustries to the economy."

n the outlook for r and Esmark at the seemed as though that switch e good for the Dow's health. No gined that Chairman Don Kelly's sset shuffling at Esmark would s stock an eye-popping 135% over t 22 months. Meanwhile, IBM, and even Chrysler have traded relatively narrow ranges. The re- e old Dow has been running re- bout 30 points ahead of the new which, as everyone knows, has staying above the magical 1000 r more than a few days at a time.

ider the implications: the mil- profits the programmed sellers have foregone by sticking to the for their decisions. Then there troops that plan to start buying e index crosses and stays over They might have driven the old to 1200 by now. It's like contem- the Second Coming.

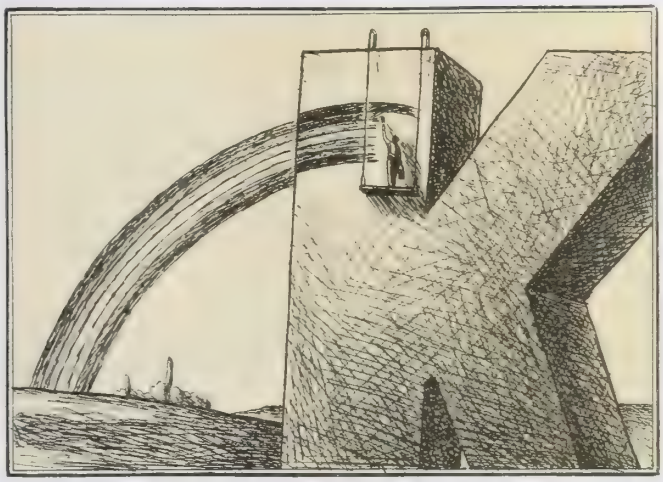
moral of this story? Read the Wilshire 5000 Review. It's on 1.—**Newcomb Stillwell**

mart: What's at the rainbow's end?

good news. K mart, the nation's largest retailer, is now the most le. Last year its $260 million in easily topped those of Sears, Roe- etail division.

ad news is that K mart's earnings were down by nearly $100 million. It beat Sears only because the Chicago-based company was reeling from merchandising misfortunes that drubbed retailing profits by an even bigger 43%.

Sears' problems, of course, have been well known for years. K mart, a $14 billion-a-year general merchandiser that grew 20% annually during most of the Seventies, had a better image. It still looks successful in the shadow of its lagging larger competitor, but not when compared with the likes of Caldor, Target and Wal-Mart. Over the past few years such smaller, more aggressive chains have been taking business away from K mart—and for the immediate fu-



ture, at least, that seems likely to continue. Where did the Troy, Michigan-based giant go wrong?

"In K mart's heyday, it really had little strong competition," says Brean Murray Foster securities analyst Robert Jordan. "Today these discounters provide better-looking stores and more attractive merchandise. To put it charitably, K mart let its stores stay very ordinary." In short, too many K mart outlets have poor lighting, open cartons of underwear piled on tables and popcorn dispensers up front by the door. "Today when the young folks want to say something looks cheap, they'll say, 'It looks as if it came from K mart,' " explains First Boston's Margaret Gilliam. "That's a hell of an image to try to overcome at a time when consumers are trading up and looking for quality."

It took a long time for K mart's managers to recognize this problem. Executives figured that all they had to do was offer good prices on low-end branded and private-label goods and open lots of new stores. That strategy worked when competitors were the likes of W.T. Grant. But eventually the magic formula began wearing thin. K mart's stock, in fact, hit a high of 51 in 1973 and it has been trailing down steadily since 1976. "After 20 years of opening over 1,800 outlets," says Mesirow & Co. analyst John Landschulz, "they never closed a single store. Now K mart is a maturing company, and that thinking has got to change, especially in the Midwest, which is a depressed area."

Investors, too, have been slow to recognize K mart's deep-seated problems. Many professional investors—even though they realized K mart's growth was slowing—figured that its stock was still a buy as recently as 1979, when it was trading in the low-to-mid-20s. Still, K mart's shares fell below 16 last year as sales and earnings sagged. Now, along with a general resurgence in retailing stocks caused by a decline in interest rates, they are back to 20. But few analysts expect K mart to outperform its competitors in the immediate future.

An exception is Goldman, Sachs, which has just put out a buy recommendation on K mart. Arthur Charpentier, its retail analyst, sees reasons for long-term optimism instead of short-term gloom. "One positive factor was the elevation of Bernard Fauber to chairman last year," he explains. "Fauber has a fresh view of what the company's direction needs to be. He is willing to look at outside ideas and is dealing with merchandising problems, not just physical growth."

Shortly after Fauber took over, for example, K mart announced it was going to give its stores a major new face-lift at a cost of $300,000 to $400,000 each. That may lure slightly more affluent customers than the blue-collar crowd that K mart has typically catered to in the past. The women's apparel section—a notorious sore point—is trading some low-priced goods for costlier items with some fashion content.

Already, these changes have been made in 9 Indianapolis stores with good results. By the end of this year another 100 outlets will be upgraded, and other stores will get new fashion-oriented apparel departments with department-store-style racks and eye-level counters as opposed to the old discount store pipe racks and waist-level counters. K mart is also improving inventory control and point-of-sale equipment and is adding four new distribution centers to the six it already has.

Such improvements will be costly, and integrating the distribution centers may prove especially troublesome. That makes most analysts somewhat skeptical that K mart can engineer a quick fix. Says First Boston's Gilliam, "It's not going to be easy for K mart to upgrade its image. The others have already beaten them to the punch." In short, with K mart shares trading at a multiple of 10 times earnings, there is other, more attractive merchandise on the retailing shelf.—**Howard Rudnitsky**

During the first quarter, investors rekindled some old flames. Toa new sweethearts? Airlines, manufactured homes and restaurants.

Wall Street's changing affections

By Steve Kichen

COMPANIES THAT HAD BEEN out of favor on Wall Street for the last few years showed some of the best gains in the first quarter of 1981. Our Winners list is laden with former pariahs in such industries as airlines, manufactured homes, apparel, electronics and restaurants. The market boosted these stocks even though, in many cases, earnings are still at a subpar level.

Few things can push the price of a stock up faster than a juicy acquisition offer, and takeover action boosted several stocks dramatically. Among the more notable Winners and their potential acquirers: Kennecott and Standard Oil of Ohio; Oscar Mayer and General Foods; AVC and Raybestos-Manhattan.

Neither Winners nor Losers are overly generous with dividends. Few of these recently volatile stocks pay yields, and 61 of the 90 companie pay any dividend. By plowing bac ings many of these firms can e their potential for future growth.

So it may come as little surpr few of today's Losers become row's Winners. And if the turn candidates in the Winners section perform as expected, they just mi come future Losers.

Winners and losers

The market composite indexes finished the first quarter of 1981 with generally modest gains—the NYSE index was up a mere 0.5%, the Amex, a more respectable 3.3%, and the NASDAQ, 3.9%. But, as usual, a large number of stocks did much better or worse than the market averages. Below are the 15 biggest gainers and losers on the New York and American stock exchanges and the over-the-counter market.

Company/principal business	% change since Jan. 1	Recent price	Price as of Dec. 31, 1980	Price range: Jan. 1 to present	Latest 12-months EPS	Price/ earnings ratio	Indicated dividend	Indicated yield	Ann reve (m
New York Stock Exchange									
Winners									
Kennecott[1]/copper mining	106%	55⅜	26⅞	55½–23	$2.79	19.8	$1.40	2.5%	$2,2
Texas International/oil and gas	105	39¼	19⅛	46⅞–17⅛	0.86	45.6	0.05	0.1	
Mobile Home Industries/mfd homes	100	4½	2¼	4¾– 2⅛	0.14	32.1	—	—	
Armstrong Rubber/tire and rubber	97	38½	19½	39⅞–19½	4.13	9.3	1.20	3.1	4
LITCO Bancorp NY[2]/banking	90	24¾	13	26¼–13⅛	1.90	13.0	1.00	4.0	1
Piedmont Aviation/airline	90	24	12⅝	24⅛–11½	3.32	7.2	0.20	0.8	4
First Pennsylvania Mortgage Tr/real estate	89	2⅛	1⅛	2⅛– ⅞	d 0.49	d	—	—	
Oscar Mayer[3]/processed meats	79	28¾	16	28¾–15¾	1.62	17.7	1.20	4.2	1,7
Farah Manufacturing/apparel	74	12⅝	7¼	12⅞– 6¼	0.73	17.2	—	—	1
Frigitronics/eye-care products	74	15¼	8¾	15½– 8¼	1.23	12.3	0.30	2.0	
Culbro/cigars, snack foods	73	17¾	10¼	19¼–10⅜	1.10	16.1	—	—	4
Dillingham[4]/building	72	31⅛	18	32¼–17⅛	2.64	11.7	0.70	2.2	1,3
Keystone Consolidated Ind/specialty steel	70	15⅛	8⅞	15½– 9⅛	d 5.37	d	—	—	3
Stone Container/paper containers	69	25¾	15⅛	27¼–14⅜	2.78	9.2	0.64	2.5	3
Philips Industries/manufactured homes	68	12	7⅛	12⅛– 6¾	1.17	10.2	0.40	3.3	2
Losers									
Modular Computer Sys/computer services	–44	13¼	23⅞	24 –11¾	0.81	16.3	—	—	8
Beker Industries/fertilizer	–37	15	24	25 –13⅞	2.49	6.0	—	—	2
Empire Inc/liquid propane gas	–35	27¾	43¼	49½–24½	1.71	16.2	0.40	1.4	3
Coastal Corp/refining, marketing oil	–35	29⅞	46⅜	46½–28⅛	4.63	6.4	0.50	1.7	5,1
Charter Co/oil and gas	–35	12½	19½	20⅜–11⅞	1.59	7.8	1.00	8.0	4,5

[1]Standard Oil of Ohio made acquisition offer at $62 per share. [2]Banca Commerciale Italiana of Milan made acquisition offer at $35 per share. [3]General Food acquisition offer for $29 cash and preferred stock. [4]Company plans spinoff of certain real estate assets. [5]Contingent merger plan with Gray Drug at share. [6]Company agreed in principle to combine with Motor Oils Refining Holding Co. [7]Early in 1981 Wal-Mart Stores terminated an agreement in principle to Kuhn's. [8]Merger pending with Raybestos-Manhattan. [9]Discussing possible merger with Hollywood Park. [10]Company is in Chapter 11. d: deficit. NA: No able. NM: Not meaningful.

Source: Standard &

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Winners and losers

Company/principal business	% change since Jan. 1	Recent price	Price as of Dec. 31, 1980	Price range: Jan. 1 to present	Latest 12-months EPS	Price/ earnings ratio	Indicated dividend	Indicated yield	Ann reve (m
Centronics Data Computer/computer equip	–34%	14½	22¼	24¼–12⅛	$0.63	23.0	—	—	$12
Commodore Intl/business machines	–33	33¼	49¾	49¼–24	1.85	17.9	—	—	12
Murphy Oil/oil and gas	–32	33¾	50	51½–33	4.03	8.3	$0.75	2.2%	1,96
Stone & Webster/engineering & construct	–31	33¾	49⅝	49⅝–33½	4.97	6.7	1.85	5.5	25
Ocean Drilling & Explor/oilfield services	–30	35	50	50½–32¼	2.67	13.1	0.80	2.3	69
Hi-Shear Industries/fasteners	–30	16¾	24¼	24⅜–16	2.52	6.6	0.50	3.0	7
Grow Group/specialty coatings	–30	8⅞	12¾	13½– 8	0.97	9.1	0.36	4.1	22
Tosco/oil refining, coal prod	–29	22¼	31⅝	33 –19¾	2.15	10.3	—	—	2,38
Basic Resources/oil and gas	–29	5¾	8⅛	8⅜– 5⅝	0.29	19.8	—	—	2
Texas Eastern/gas line, petrol marketing	–28	56½	79¼	79⅜–54⅛	8.72	6.4	3.20	5.7	4,27
American Stock Exchange									
Winners									
Drug Fair[5]/drugstores	131	18½	8	18⅝– 7⅞	0.99	18.6	0.40	2.2	26
Kirby Exploration/transportation services	112	293	138	301¾–133	8.10	36.1	—	—	7
Nexus Industries/apparel	108	14⅞	7⅛	15 – 7	0.66	22.5	—	—	41
Bethlehem Corp/metal fabricating	107	7	3⅜	7½– 2⅞	0.48	14.5	—	—	14
Sparkman Energy/gas pipeline	104	18⅜	9	18½– 9	0.17	NM	—	—	21
Frequency Electronics/electronics	101	34¼	17	37⅝–16¾	0.69	49.6	—	—	9
TII Industries/electronics	101	32¾	16¼	33¾–16½	1.33	24.6	—	—	19
Pizza Inn/restaurants	93	7¾	4	8⅜– 4	0.59	13.1	—	—	125
Quebecor/publishing	93	16	8¼	16⅜– 9	1.26	12.7	0.34	2.1	151
Kit Manufacturing/manufactured homes	92	3⅜	1¾	3¾– 1⅝	d 0.45	d	—	—	28
Sunair Electronics/electronics	91	17	8⅞	18⅞– 8¼	0.85	20.0	0.35	2.1	12
Connelly Container/paper containers	84	4⅝	2½	5⅞– 2⅝	0.47	9.8	—	—	49
Champion Home Builders/mfd homes	83	2¾	1½	2⅞– 1⅛	d 0.08	d	—	—	215
Inflight Services/films aboard airlines	81	5	2¾	5⅜– 2¼	0.30	16.6	—	—	22
Nortek/textiles	80	11¼	6¼	11⅝–6¼	1.41	7.9	0.80	0.7	141
Losers									
Askin Service[6]/retail	–52	2¾	5¾	5¾– 2½	d 1.03	d	—	—	7
Kuhn's Big K Stores[7]/retail	–46	2¾	5⅛	5⅝– 2¾	d 2.09	d	—	—	287
Solid State Scientific/semiconductors	–45	10½	19¼	19⅞–10¼	0.66	15.9	—	—	33
Dorchester Gas/natural gas	–36	17¾	28⅛	28½–17⅛	1.95	9.1	0.16	0.9	608
Health-Chem/health care supplies	–35	18½	28⅞	29¼–14	0.33	56.0	—	—	77
Voplex/auto equipment	–33	11¼	17	17¼–11¼	0.59	19.0	0.52	4.6	43
Rusco Industries/building materials	–33	1¾	2⅝	3 – 1⅝	d 1.02	d	—	—	70
Colonial Commercial/apparel	–33	2	3	2½– 1	d 0.86	d	—	—	30
Worldwide Energy/oil & gas explor and dev	–32	11⅝	17¼	17¾–11⅛	0.35	33.2	—	—	43
Data Access Systems/computer equip	–31	16	23¼	24⅛–13⅞	1.60	10.0	0.20	1.2	37
Crown Central Petrol/refining, mktg oil	–31	20	29	30 –19½	2.82	7.0	0.80	4.0	1,273
AVC[8]/metal fabricating	–31	8¼	12	11¾– 8	d 2.01	d	—	—	88
Horn & Hardart (NY)/mail order, restaurants	–30	13¼	19	19⅛–12½	0.98	13.5	—	—	128
Baruch-Foster/oil and gas	–30	18⅝	26⅞	28⅝–18	1.21	15.3	—	—	3
Summit Energy/oil & gas explor & dev	–28	22½	31⅜	31¾–20½	0.62	36.2	0.20	0.9	6
NASDAQ									
Winners									
Digital Switch/telecom equipment	272	8⅜	2¼	8⅜– 2	d	d	—	—	N
Chaparral Resources/oil & gas production	164	31¾	12	31¾–10⅜	d 0.07	d	—	—	0
Comm Corp of America/telecom equip	163	11⅞	4½	11⅞– 4⅝	0.47	25.2	—	—	15
First Newport/real estate investment trust	149	9⅜	3¾	9⅝– 3¾	0.66	14.1	—	—	18
Enzo Biochem/enzymes	131	25½	11	27¼–10½	d 0.01	d	—	—	0
Morgans Restaurants/restaurants	128	4	1¾	5¼– 1½	d 0.35	d	—	—	8
Groman/electrical equipment	123	2½	1⅛	2½– 1⅛	0.08	31.2	—	—	22
Texas General Group/oil and gas	115	37¾	17½	38¾–14½	0.43	NM	—	—	14
Unifi/textiles	114	14¾	6⅞	14¾– 6¾	1.50	9.8	—	—	142
ProGroup/recreation equipment	112	2⅛	1	2⅛– 1	0.19	11.1	—	—	21
Amfesco Industries/shoes	110	21	10	21 – 9	3.01	6.9	—	—	34
Capitol International Airways/airline	100	2½	1¼	3⅛– 1	d 1.76	d	—	—	93
Los Alamitos Race Course[9]/race track	100	24	12	25 –11½	1.12	21.4	0.72	3.0	14
Sea Galley Stores/restaurants	100	16½	8¼	16½– 8¼	0.82	20.1	—	—	22
Washington Corp/REIT	100	2¾	1⅜	3⅜– 1⅜	0.05	55.0	—	—	2
Losers									
Meta Systems/electronics	–65	1½	4⅜	4¼– 1½	d 0.40	d	—	—	0
Clinical Sciences/health care supplies	–57	6½	15¼	15¾– 6¼	d 0.07	d	—	—	3
Gilman Services/drug & cosmetic distrib	–56	5⅞	13½	20 – 4¼	d 0.59	d	—	—	114
TPEX Exploration/oil and gas	–55	1⅛	2⅝	2⅝– 1⅛	0.01	NM	—	—	0
Gulf Energy/oil and gas	–55	1⅝	3⅝	3⅝– 1½	0.01	NM	—	—	3

any/principal business	% change since Jan. 1	Recent price	Price as of Dec. 31, 1980	Price range: Jan. 1 to present	Latest 12-months EPS	Price/ earnings ratio	Indicated dividend	Indicated yield	Annual revenue (mil)
Equip Assoc[10]/pollution cntrl equip	–54%	1⅜	3	3¼– 1⅛	$d 4.15	d	—	—	$140.5
Tech/vacuum deposited thin film	–48	3¾	7¼	8¼– 3¾	0.42	8.9	—	—	10.4
Pacific/oil and gas	–48	2	4	3⅞– 1⅝	d 0.29	d	—		1.6
elter/land developer	–47	2¼	4¼	4¼– 2	d 1.80	d	—	—	14.1
Electronics/electronics	–46	3¾	7	7 – 3½	d 0.28	d	—	—	23.3
Electronics/electr components distrib	–45	8¾	16	17 – 7¼	1.73	5.0		—	64.8
ican Mgmt Sys/computer services	–45	18¼	33½	34 –18	1.40	13.0		—	48.6
odyne/electrical equipment	–42	3¾	6½	6½– 3½	0.56	6.6	—	—	29.0
lton Brothers Petroleum/oil & gas prod	–42	24½	42¾	42¾–21¾	1.37	17.8	$0.10	0.4%	111.4
or/heat transfer equipment	–41	2	3½	3¾– 2	d 0.17	d	—	—	59.2

rd Oil of Ohio made acquisition offer at $62 per share. [2]Banca Commerciale Italiana of Milan made acquisition offer at $35 per share. [3]General Foods made tion offer for $29 cash and preferred stock. [4]Company plans spinoff of certain real estate assets. [5]Contingent merger plan with Gray Drug at $20 per [6]Company agreed in principle to combine with Motor Oils Refining Holding Co. [7]Early in 1981 Wal-Mart Stores terminated an agreement in principle to acquire [8]Merger pending with Raybestos-Manhattan. [9]Discussing possible merger with Hollywood Park. [10]Company is in Chapter 11. d: deficit. NA: Not available. NM: aningful

Source: Standard & Poor's.

ulators are giving the railroad industry green light to make more money.

Statistical Spotlight

The rail resurgence

By Steve Kichen

ITH THE PENN CENTRAL bankruptcy of 1970 and the well-publicized problems of carriers like ock Island, the railroad industry nything but the darling of Wall Now, of course, all that has d. Rail stocks are the locomotives ove the market ahead. "A better ory environment, more efficient routes from merged lines, new technologies and new marketing concepts make the railroads more attractive investment vehicles," says James Vail, transportation analyst of the Trust & Investment Division of Chemical Bank.

The Staggers Act of 1980, for example, cleared the track several ways. It gave the railroads greater flexibility in establishing and changing rates and permitted carriers to make contracts with major shippers. What's more, the legislation led to a recent ruling by the ICC that allows a minimum return of 11.7% on railroad investments—up from 11.22% previously. "It is quite likely that competition from other railroads and truckers will prevent companies from earning that full amount in every instance," says Vail. However, the table below shows most lines still have ample room to maneuver beneath the new ceiling.

Many lines are also favorably poised to take advantage of the anticipated increase in coal traffic. "In 1980 the rails were supported largely by coal and grain shipments," Vail explains. "Recessionary pressures kept general merchandise shipments down. A turnaround in merchandise shipments on top of coal and grain shipments could result in substantially higher earnings." Beyond that, nearly all railroads have real estate and natural resources on their books at a fraction of actual value. To get an idea of what that can mean, read about Burlington Northern on page 120.

The little engine that could

r the past 12 months most of the railroads below have east doubled in price. But even at their present values, t lines show relatively low price/earnings ratios based on the more optimistic of our 1981 earnings estimates and few are even close to earning 11.7% on their railroad investment—as provided for by the Staggers Act of 1980.

oad	Recent price	Latest 12-month price range	Earnings per share 1979	1980	1981 E	P/E based on high estimate for 1981	Indicated yield	Book value per share	Return on railroad property investment
ington Northern	71	77 –33	$6.55	$7.55	$ 7.50–$ 8.00	8.9	1.8%	$65.28	4.1%
	52⅛	55⅝–41⅛	6.12	7.13	8.00– 8.50	6.1	4.9	70.32	NA[1]
ouri Pacific[2]	92	115 –52⅛	11.68	10.70	11.25– 12.00	7.7	3.9	58.51	8.4
olk & Western Railroad[3]	45⅞	49½–24⅝	6.36	7.05	7.25– 7.75	5.9	5.7	49.18	8.9
a Fe Industries	94	109 –49⅜	8.08	10.42	11.50– 12.00	7.8	3.2	78.62	5.9
hern Pacific	49½	52 –30⅛	6.67	5.78	5.50– 6.50	7.6	5.3	80.36	1.6
hern Railway[4]	88½	89½–52¾	10.39	11.57	12.25– 13.00	6.8	4.8	83.51	9.1
on Pacific	74½	96¼–37¼	4.01	4.22	5.25– 5.50	13.5	2.1	29.56	7.6

posite figure for CSX not available. Return on investment, 1979, for major lines of CSX: C&O 4.6%, B&O 4.5%, Western Maryland 9.6%, Seaboard Coast Line 7.2%, ville & Nashville 5.1%. [2]Shareholders to vote on merger with Union Pacific. Proposed exchange: 1.1 common and 0.275 preferred of Union Pacific for 1 share of uri Pacific. [3]Share for share merger with Southern Railway has been approved; to form NWS Enterprises. [4]Merger with Norfolk & Western Railroad approved. nge: 1 share of Southern Railway for 1.9 shares of NWS Enterprises. E: Estimate. NA: Not available. *Source: Trust & Investment Division of Chemical Bank*

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Volvo (Sweden) .....
Wal-Mart .....
S.G. Warburg (U.K.) .....
Warner-Lambert .....
Western Co. of North America .....
Westgate-California .....
Westinghouse Electric .....
Worthington Inds .....

Do you know anybody who is somebody in busines who does not read Forbes Magazine?

Forbes: Capitalist Tool®

Flashbacks

Edited By Dero A. Saunders

he more things change. . . ."
ns from past issues of FORBES

years ago in FORBES

ss men all over the country make a point of having a talk heir bankers about the rates for loans. A year ago bank re- vere fully 10% below what they ay, yet commercial borrowers en supplied funds at [lower] rates. e rentals charged a year ago were ough, those now imposed are xcessive. Instead of money being han it was 12 months ago, it now be materially cheaper. In- here was need for applying the l brakes at this time last year, now there is urgent need for every legitimate stimulus."

years Dr. **John H. Kellogg** has the open air—not merely in a tilated room, or in an enclosed porch, but in the actual open— aking up of a winter morning to sleeping bag covered with snow. ears he has lived on grains, fruits etables—two meals a day. At the reek Sanitarium, of which he is endent, he answers health ques- ery Monday night. His question uently contains a query like this: level, now, Doctor, don't you down and enjoy a big, juicy beef- a couple of tender lamb chops?' Doctor, given this lead for his topic, will enthusiastically ex- at he has 'never had any desire to his stomach and colon a potter's deceased animals.' "

nn H. Kellogg was a reflection of 19th-century explosion of inter- et and nutrition. But before dis- him as merely flaky, consider had a hand in starting. The grain ons to which he enthusiastically d his patients—one complained o hard crust of bread broke her —led Dr. John's brother William gg, business manager of the Sani- to try around the turn of the to devise more palatable and di- cereals. A happy accident cre- eat flakes, soon followed by other that became the foundation of kfast cereal industry.

de was the fame of the products y Sanitarium patients returned at some 40 companies sprang up Creek between 1902 and 1904 the new foods. In 1906 William at 46, gave it a try himself by W.K. Kellogg Co.—still the mar- er 75 years later, with some 40% eakfast cereal trade.

Fifty years ago

"**When Harvey D. Gibson** acquired control of the Manufacturers Trust Company of New York, he told the writer [Editor B.C. Forbes], 'I want to pick working directors. I don't want figureheads. I'd rather pay directors who actively help to build up an institution than have figureheads who merely attend meetings and receive no compensation except a gold piece.' . . . Investigation of the affairs of the failed Bank of United States reveals that various directors claim they knew little or nothing of what was going on. . . . But the Chief Judge of New York's highest appellate court, upholding indictments of such directors, lays down this sensible rule: 'No custom or practice can make a directorship a mere position of honor void of responsibility, or cause a name to become a substitute for care and attention. The personnel of a directorate may give confidence and attract custom; it must also afford protection.' "

But Harvey Gibson was more than a New Englander with a sharp eye for getting work from his directors. This son of a New Hampshire judge was also one of the truly creative bankers of his age.

As head of a small New York bank, in the Depression he seized a chance to take control of a shaky Manufacturers Trust Co., then the 27th-largest U.S. bank, and expanded when no one else would. He signed up new correspondent banks when other big banks feared to, lest they be asked for loans. He had Manufacturers act as liquidating agent for nine failed New York banks; by paying the liquidating dividends through MT offices he picked up new depositors and was able to buy branches cheap. More branches came by mergers, still more by purchase from bigger banks like Chase. In a far more crowded arena, Gibson rivaled Bank of America's A.P. Giannini as an apostle of mass banking: The future, he believed, belonged to the retail banks—not lordly wholesale banks like New York's First National, now long since merged into Citibank. Gibson's ultimate victory came after his time when, in late 1961, Manufacturers absorbed the stodgy wholesale Hanover Bank to clinch its spot as the fourth-largest U.S. bank.

Manny Hanny pioneer Harvey Gibson

Prim New Englander though he was, Harvey Gibson knew how to live. He liked to ride horseback each morning before 6 on his Long Island estate, then dress and eat a leisurely breakfast on his yacht taking him to a 9:30 arrival at his lower Manhattan office. Now *that's* commuting!

Quitting time at Lawrence, Mass. textile mill

"**The outlook for women's apparel** continues more favorable, especially with the gradual disappearance of the flapper type and the greater sanity in women's dress, especially in the increasing number of garments worn. This does not take into consideration the increasing style consciousness of the American female population, the increasing real wages of the female population, as well as the increasing number of women gainfully employed. The almost instant dissemination of style information [by] the motion picture, rotogravure section and radio, along with the possible introduction of television, means more rapid style changes and, therefore, a greater number of garments purchased."

Twenty-five years ago

"**For many months** it was common gossip around Detroit clubs, but now it was official: Studebaker-Packard Corp., the U.S.' largest 'independent' maker of motor cars and possessor of two of the proudest names in autodom, was in serious financial trouble. [Its] 1956 Studebakers, Clippers and Packards just were not selling. In the first 16 weeks of this year, Studebaker's output fell to 35,729 cars, off 31% from 1955; Packard's dropped to 8,523, down a brutal 66%."

Thoughts
on the Business of Life

Dost thou love life? Then do not squander time, for that's the stuff life is made of.
BENJAMIN FRANKLIN

Man's chief purpose is to live . . . not to exist. I shall not waste my days, trying to prolong them. I shall use my time.
JACK LONDON

That pose and those important airs don't fit you well. It's obvious that they're false.
JOSEMARIA ESCRIVA

Him whom a little will not content, nothing will content.
EPICURUS

The truest mark of being born with great qualities, is being born without envy.
LA ROCHEFOUCAULD

A Text . . .

And God is able to make all grace abound toward you; that ye always having all sufficiency in all things, may abound to every good work.
II CORINTHIANS 9:8

Sent in by Wm. R. Curry, Ypsilanti, Mich. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

How to conquer jealousy? Conceal it consciously. To your wide surprise, one day you will not be able to trace it at all. It will all be gone, a story of the past.
SRI CHINMOY

Envy is wanting what someone else has without knowing fully what he's got.
FRANK TYGER

Do not some of us love ostentation overmuch, and are too prone to ape those better circumstanced than ourselves? Such foolishness not only costs money, but squanders time. It leaves too little leisure for mental repose or for mental exertion, too little opportunity for self-culture, too little time for learning the art of living, which, after all, should be the end we all have in view.
B.C. FORBES

I have learned to seek my happiness by limiting my desires, rather than attempting to satisfy them.
JOHN STUART MILL

Habit converts luxurious enjoyments into dull and daily necessities.
ALDOUS HUXLEY

We are all of us richer than we think we are.
MICHEL DE MONTAIGNE

It remains true that the greatest injustices proceed from those who pursue excess, not from those who are driven by necessity.
ARISTOTLE

Most of us are no better than we believe others to be.
ARNOLD GLASOW

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at $11.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add appropriate sales tax on New York State orders.

Pleasures of the senses pass quickly; those of the heart often become sorrows; but pleasures of the mind are w us until the end of the journ
SPANISH PROVERB

Making myself known is no what is uppermost in my m I am aiming at something better: to please myself.
GUSTAVE FLAUBERT

To know what one can have and what to do with it is the basis of equilibrium.
PEARL BUCK

We all have within us a cent of stillness surrounded by si
DAG HAMMARSKJOLD

We are all the same— fools of our own woes!
MATTHEW ARNOLD

Great men are more distinguished by range and extent than by originality.
RALPH WALDO EMERSON

The whole problem of life is to understand one another.
WOODROW WILSON

Bees accomplish nothing save as they work together, and neither do men.
ELBERT HUBBARD

For, in the final analysis, our most basic common link that we all inhabit this small planet. We all breathe the same air. We all cherish our children's future. And we are all mortal.
JOHN KENNEDY

That which is to be most desired in America is oneness and not sameness.
STEPHEN S. WISE

FORBES
May 11, 1981

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Forbes

500

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Why a Hasselblad costs more than other cameras.

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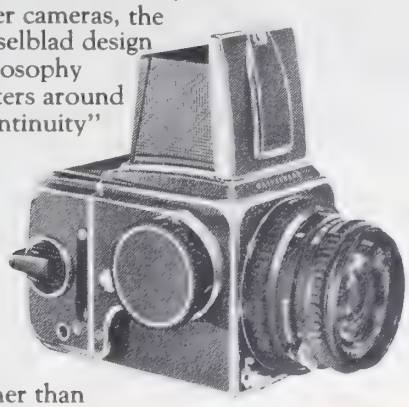
It takes a full year to make a Hasselblad camera. Almost every part right down to the smallest screw, is made by Hasselblad. There is no mass production involved. All the parts are assembled by hand, and fit together with extraordinary precision.

A Hasselblad is designed and constructed to give long years of optimum performance to the professional photographer, who depends on his camera for his livelihood. Consequently, a Hasselblad camera is both rugged and sensitive—an exquisitely responsive photographic instrument of the sturdiest construction.

Because a Hasselblad gives performance far beyond that of other cameras, the Hasselblad design philosophy centers around "continuity"



rather than "obsolescence". New accessories will fit Hasselblad cameras of 20 years ago.

In the long run, a Hasselblad not only pays for itself by its performance, but also retains its value. In fact, Hasselblad cameras have been sold, after years of usage, for more than twice the original purchase price.

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A more specialized camera is the Hasselblad Superwide C/M, with a built-in wide angle lens that gives a distortion-free 90° angle of view.

The 500 EL/M motor Hasselblad, ideally suited for fast shooting and remote control operation.

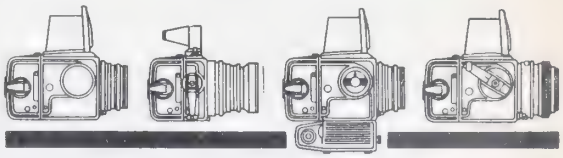
And then, the superb Hasselblad 2000 FC, with an electronically-controlled shutter that provides speeds up to 1/2000 second.

As your needs grow, you can modify your Hasselblad accordingly by interchanging the lenses, viewfinders and film backs, as well as utilizing any of the numerous accessories.

You can even change film formats—something you can't do with other cameras. For example, you can shoot in the truly ideal 2¼″ square format that makes it easy to view, frame and focus, and that results in an image 3½ times larger than 35mm. Or simply snap off the film magazine back and instantly replace it with a 6 x 4.5 cm format magazine, which enlarges to 8″ x 10″. Your third choice is to shoot "superslides" that project on any 35mm projector, but give you twice the image area of 35 mm, dramatically filling the screen.

So, while a Hasselblad costs more, it's easy to see why so many serious photographers feel they can't afford to be without it.

See your Hasselblad franchised dealer or write for one of our bulletins on square composition, and a comprehensive brochure on the Hasselblad system to: Victor Hasselblad Inc., Dept. A-14, 10 Madison Road, Fairfield, N.J. 07006.



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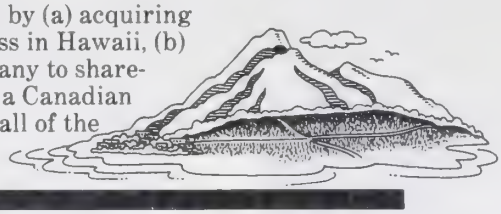
1. **Which of these growing truck companies are IU operations?** (a) Ryder Truck Lines, (b) Helms Express, (c) Pacific Intermountain Express, (d) all of the above, (e) none of the above.

2. **IU is a leader in environmental services.** This $250 million business includes (a) pollution control for power plants, (b) handling waste materials at steel mills, (c) hazardous waste disposal, (d) water management services, (e) all of the above, (f) none of the above.

3. **Sugar 'n spice and everything nice comes from C. Brewer & Company in Hawaii.** They are world famous for (a) macadamia nuts, (b) pineapple, (c) curry powder, (d) all of the above, (e) none of the above.

4. **IU has restructured its business** by (a) acquiring full ownership of a major agribusiness in Hawaii, (b) spinning off its ocean shipping company to shareholders, (c) exchanging its control of a Canadian utility for its own common stock, (d) all of the above, (e) none of the above.



Answers: 1-d, 2-e, 3-a, 4-d

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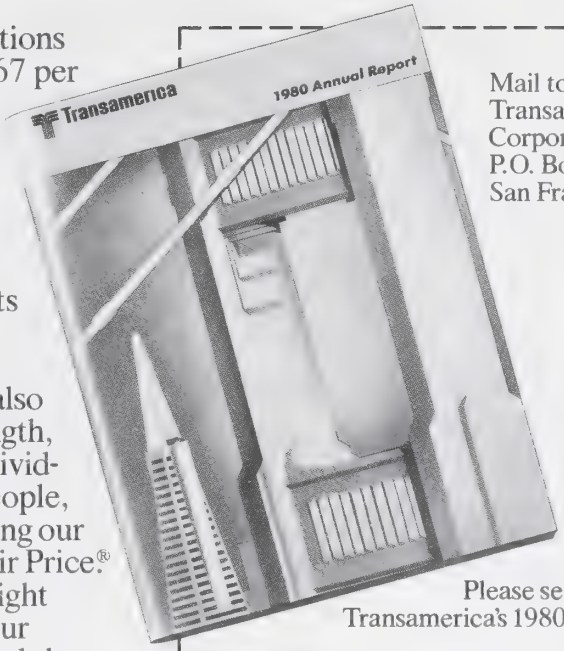

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Volume 127, Number 10

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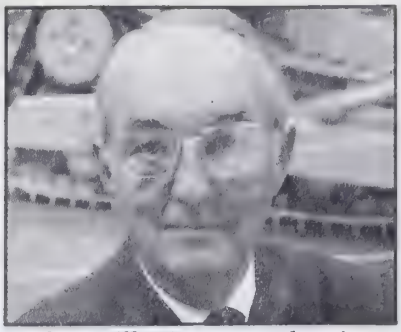

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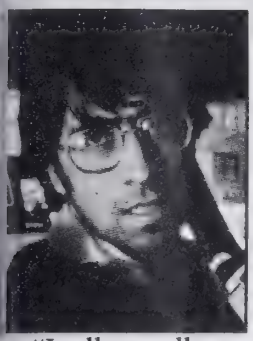

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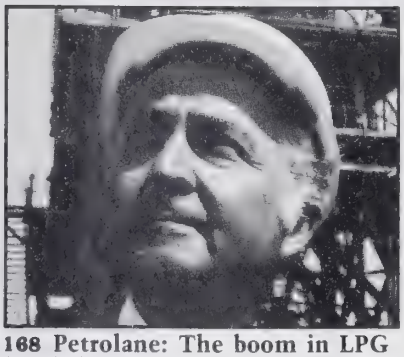

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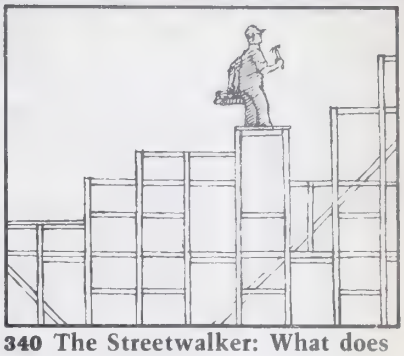

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Side Lines

A dilemma for the Kremlin

Poland is the focus of the news from Eastern Europe these days, so why are we doing a major article on Hungary, that little nation of 10.5 million people that has scarcely been heard from since its populace was crushed under the weight of Soviet tanks a quarter century ago? The answer is simple. We happen to think that what is going on in Hungary may have more significance in the long run than the outcome of the more sensational events in Poland and Afghanistan.

Forbes' Laurence Minard (center) *with time entrepreneur Istvan Pelikan* (righ

Hungary is finding ways of paying lip service to the demands of socialism while adopting in practice more and more of the incentives of capitalism. It is turning into what old-line Stalinist types bitterly assail as "refrigerator" socialism—that is, socialism with a strong bourgeois strain in it.

In reporting the article that begins on page 118, Lawrence Minard, our European Bureau Manager, lunched in Budapest with one of Hungary's leading intellectuals, Dr. Ivan Boldizsar, editor of the *New Hungarian Review*. Listen to what the bitingly witty, courteous Dr. Boldizsar had to say: "We have gotten rid of the Russian model in the economic sphere. But we still need something to replace it in the political sphere. The problem we face is somehow finding new forms of democracy without losing the authority of the [Communist] Party."

An interesting statement that; a neat trick if they can accomplish it—to talk communist but act in an increasingly free-enterprise manner. Already, Minard points out, Hungary has achieved a high degree of prosperity, accepting Soviet hegemony without submitting to the despotism that characterizes Soviet puppets like Cuba, North Vietnam and Nortl rea, to say nothing of Poland and Rum

The degree of Hungary's compar prosperity becomes clearer in the that follows—a report by Minard or mania's faltering economy. Said on manian intellectual to Minard in de over inept policymaking combined sheer police terror: "There is no anyone can or wants to do." The st on page 131.

These back-to-back reports go t heart of the dilemma now confro the Soviet leadership. If the effect o Hungarian experiment can be conta making ordinary people more willi accept communism without ena them to alter its ultimately repre nature, that could be very bad new the cause of freedom there. But i experiment were to prove contagio it were to encourage communist s elsewhere to introduce economic i tives, making these states more hun more human, that could be good ne immense proportions to the cau freedom everywhere.

The sun also rises . . .

The hoary cliché that U.S. business is increasingly dominated by a few giant companies is regularly disproven by the Forbes 500s. This year is no exception. The cutoff point for the Sales 500 is almost exactly $1 billion—number 500, Square D, had $999 million in sales. That means there are now *500* billion-dollar public corporations in the U.S. While some big names dropped off through acquisition or otherwise—Allegheny Ludlum, Continental and Western airlines, GAF, Scovill, White Motor—33 new companies made the list this year in industries as diverse as publishing (McGraw-Hill) and reinsurance (General Re). U.S. business keeps getting bi true, but the law of life and regener applies in all its dimensions—not on sales, but also in profits, assets and s market value. Talking about rege tion, in fact, one of those 33 "new ers" is the new Penn Central, rec back from the dead. The 500s begi page 215.

James W. Michaels
Editor

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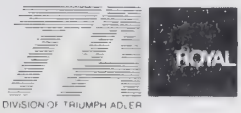

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Trends

Edited By John A. Conway

Men vs. women

Businessmen will be watching the Supreme Court for a decision in late June on the question of whether nurses, say, or secretaries, who are usually women, should get the same pay as mechanics or construction workers, who are usually men. The case involves prison guards in Oregon, but the issue is the concept of "comparable worth," an idea promoted by women's rights groups and federal equal-opportunity watchdogs. The argument: Employers can be sued under the 1964 Civil Rights Act if they pay women less than men in jobs of similar value, even if the work is totally different. That's one way, proponents argue, to break the pattern that keeps women's paychecks at about 60% of males'. Lined up against the idea are the National Association of Manufacturers, the Business Roundtable and the Reagan Administration, all of whom see the comparable worth doctrine as one more attempt to tell businessmen how to run their companies. The 28,000-member American Society for Personnel Administration has asked the Court to reject the concept when it rules on the Oregon guards and matrons. If comparable worth is upheld, the ASPA argues, it could cost business from $50 billion to $150 billion a year and have the government setting pay standards rather than the market, management or collective bargaining.

How poor is poor?

Washington says it now costs more to be poor. Under new federal guidelines, an urban family of four, for example, is considered living in poverty if its income is less than $8,450 a year. A year ago the cutoff was $1,000 below that figure. A single-person "family" by federal lights is poor if income falls below $4,310 annually, $520 higher than the 1980 ceiling. The guidelines determine income eligibility for the federal assistance programs.

The CPA faces life

One of Parkinson's Laws holds that work expands to fill the time allotted to it; the same could be said about money. After eight years of operating comfortably on surplus budgets, the Financial Accounting Foundation is bracing for future deficits. Actually, the cause is not so much the work as the nature of gift-giving to nonprofit organizations. When it was set up in 1973 and for some years after, the bulk of the foundation's money came from the big accounting firms. (The FAF changed the rules later so that the CPAs now provide 38% and 2,000 of their company clients supply the r The problem is that givers tend to ig things like inflation. Contribution 1980 were 20% above those in 1 with inflation factored in, they 35% below 1973. And the accoun foundation's budget projections so make no provision for the possib that it may at some future date tak the additional chore of setting stand for the 50 states and 40,000 munici ities in the U.S. The trustees have started working on a five-year pla include both outside fundraising fresh ways to increase the internal eration of income.

After-school taxes

Teachers have given the IRS somet new to think about—tax deduction at-home meetings with students and ents. With many schools closing as s as pupils leave, both for protection for energy conservation, the Nati Education Association says its mem are forced to use their homes for pa and student conferences, as well as their own homework.

What next for OPEC?

When Ahmed Zaki Yamani, Saudi bia's oil minister, sits down with OPEC peers in Switzerland in a weeks, he should be ready to deal f strength in getting the cartel to settl a uniform, long-term pricing policy. should be, but will he? The Saudis, pu ing a record 10.3 million barrels a

Ahmed Zaki Yamani
How much logic will OPEC heed?

Why this Chicago ad man leaves his $200 attache case in the closet and carries our $28.50 Courier.

Dick Anderson, an Executive Vice President of Needham, Harper and Steers, explains it this way:

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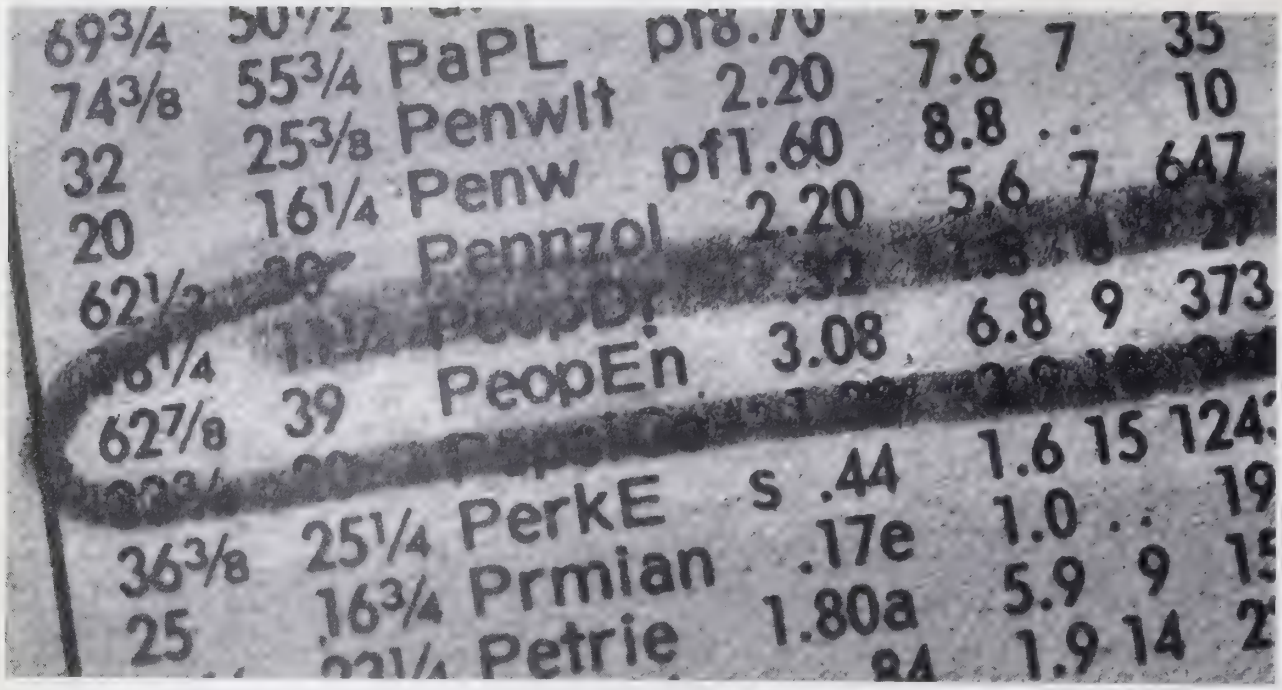

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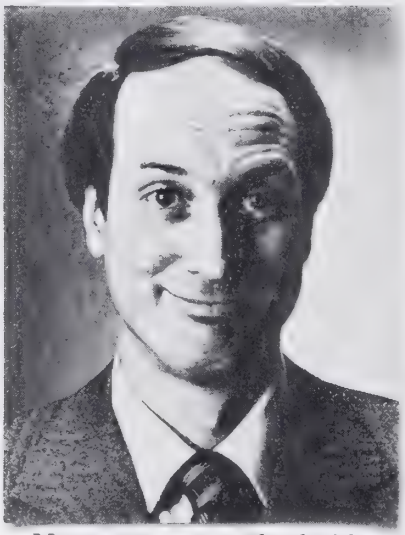

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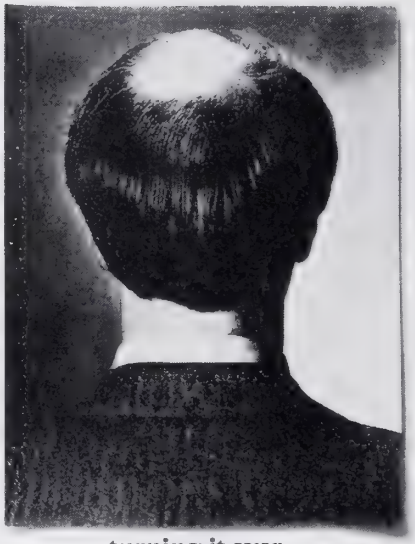

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: key to the growing oil glut that has eady forced some producing nations to gin cutting prices. That pressure, how-er, falls primarily on the grab-it-now 'EC hawks that have been charging up $41 a barrel, in contrast to the $32 udi price. Yamani has been striving to suade OPEC to agree on a common cing formula, unveiled last September, it would allow its customers to plot a dictable course in oil costs. His idea is base prices on a combination of infla-n rates, growth in gross national prod-t and the value of the dollar, still the idamental monetary unit for oil. The udis figure such a formula would pre-it dizzy price spirals, which they fear uld only force the big industrial coun-es into seriously turning away from oil ward alternative fuels. More immedi-ly, for political and military reasons, udi Arabia wants to stay aligned with ATO and the U.S. The problem is that 'EC, while a cartel, is hardly a band of thers. The Saudis can afford the long w because they can probably keep mping, even at the current high rate, half a century. Other members, with rhaps half the Saudi capacity, want to it all and get it now.

he view from Philadelphia

e rich will get richer in the 1980s and poor, well. . . . The top 20% of nericans, according to Chase Econo-trics, grabbed off a bigger share of al income during the 1970s, and there no sign of this trend changing. By 90, says Sandra Shaber, director of nsumer market services for the Chase anhattan subsidiary, based in the iladelphia area, the country will be lit evenly among single-person house-lds, one-income and two-income fam-es; ten years ago, the single-income nily ruled the roost. The luxury mar-t, she predicts, will thrive in the Eight-, with the well-heeled snapping up ste-systems, microwave ovens, boats d expensive vacations. The more mun-ne areas of furniture and other mass-arket items will be disappointing, de-ite the fact that the children born dur-g the baby boom of the Fifties will be ving into their higher-income earning ars. "A lot of people have overrated the ending power of the baby-boom gen-ation," economist Shaber says, noting at young families, particularly those th a single income, will have a tough ne keeping pace with inflation. The y-high cost of housing, she adds, may o squeeze purchases of furniture and her traditional first-home items. For-ation of new households will also be w because "not many children were rn during the 1960s." As for the econo-

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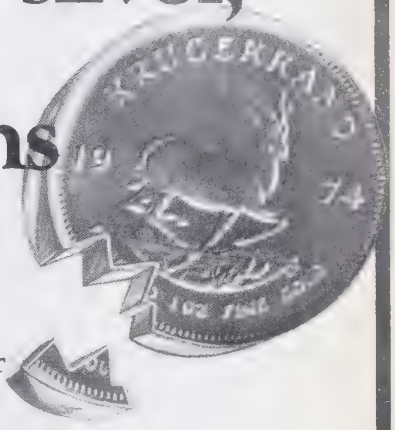

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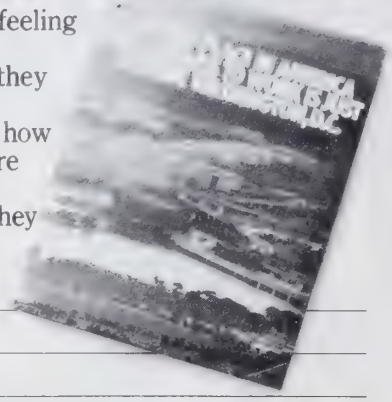

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born during the 1960s." As for the eco my itself, the view from Philadelphi gloomy: "slow growth, inflation and l ging productivity."

Up the computer ladder

Japan's burning determination to k driving into the world computer indus is underscored by two new execut nameplates. The new presidents of jitsu Ltd. and Hitachi Ltd. both m their mark in computers. At Fujitsu, pan's biggest computer maker ($2.4 lion in sales), the new top shogun Takuma Yamamoto, a 55-year-old el trical engineer who is credited with signing the company's first computer 1954, and jumped over three vice pr dents into his new job. At Hitachi, ra the General Electric of Japan, the n president is Katsushiga Mita, 56, a year veteran with the company. M another electrical engineer who beca corporate vice president only last Ju has been running Hitachi's computer vision, which in the first half of its c rent fiscal year accounted for $1.3 bill of $7.8 billion in total revenues.

The check stops here

Back in the days of McKinley, wl banks began returning canceled che to customers, they hymned the adv tages of having such permanent reco of expenditures. Actually, they w bothered about the cost of bank wa houses bulging with such paper. N banks want to reverse their field, the American Bankers Association starting a national test of what it c "check truncation" to save the ti money and paperwork involved in turning checks (more than $200 mill a year on postage alone). The test, volving 100,000 to 120,000 corpor dividend checks, is under way at ei banks—Chase Manhattan, Contine Illinois, Irving Trust, North Carol National, Hartford National, First tional of St. Louis, First National New Jersey and Valley National Phoenix. As soon as a dividend ch arrives at any of these banks, it stop there, instead of wending via ious clearances back to the issuer. seph P. Coriaci, senior vice president Continental Illinois and an ABA t force chairman for the experiment, s this will mean "much better service the corporate customer." Many these, he says, now rely on banks copies anyway and a photocopy fro bank's microfilm is, in his view, "mu quicker, and acceptable for almost reason conceivable."

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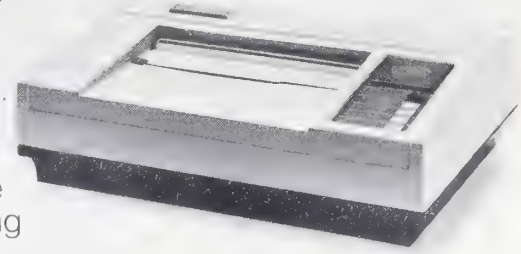

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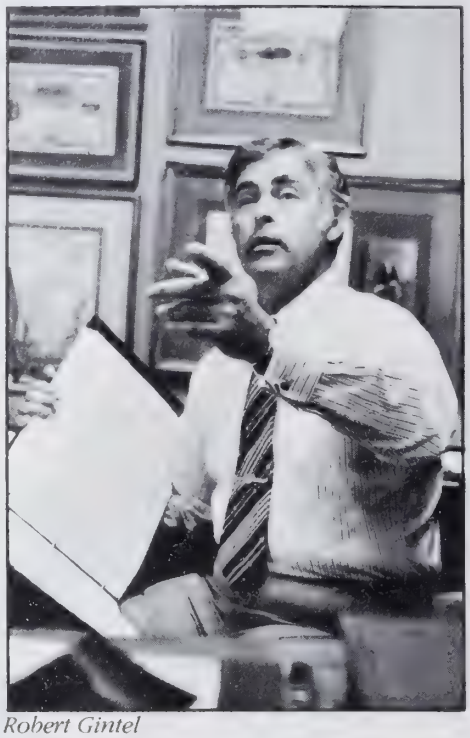
Follow-Through

Betting on the turnaround

When FORBES talked to Robert Gintel last summer *(June 9, 1980)*, the perennially optimistic Greenwich, Conn. money manager was hunkered down. Half of his portfolio was in short-term investments, awaiting the day when he cheered up again about long-term buying,



Robert Gintel
Betting on the conservatives.

a game he has played for more than 20 years. Gintel was depressed by the fate of growth stocks like Kodak, which had been knocked down to 50 while investors were scrambling into trendy short-term plays like energy and precious metals. "If conservatives gain a foothold in Congress or the White House this fall," he told FORBES, he would be back in the market.

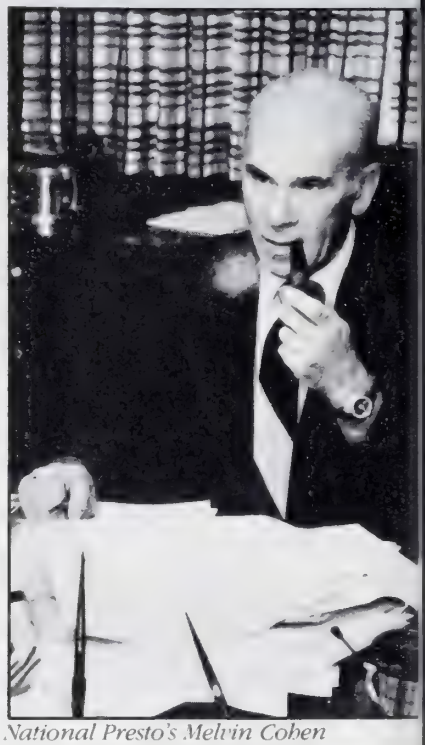
When prospects for a conservative victory began to loom late last summer, Gintel put his money where his mouth was and charged back full tilt. He pulled nearly all of his cash, $25 million, out of short-term investments and poured it into stocks like pharmaceuticals (Squibb), restaurants (Chart House) and heavy construction products (H.H. Robertson). So far he has made a killing in Chart House, a handsome profit in Robertson and a modest gain in Squibb. Once more optimistic, Gintel says: "The ship is turning now. We're seeing the first major change in this country since the New Deal."

Many of Gintel's recent purchases reflect his optimism for a broad economic turnaround, and his money is in such industrial companies as Dayco, Avco, Timken, Hercules and Reynolds M And what about the stampeding spe tors he scorned in 1980? "They got comeuppance," he says with a smil

Presto, change-o!

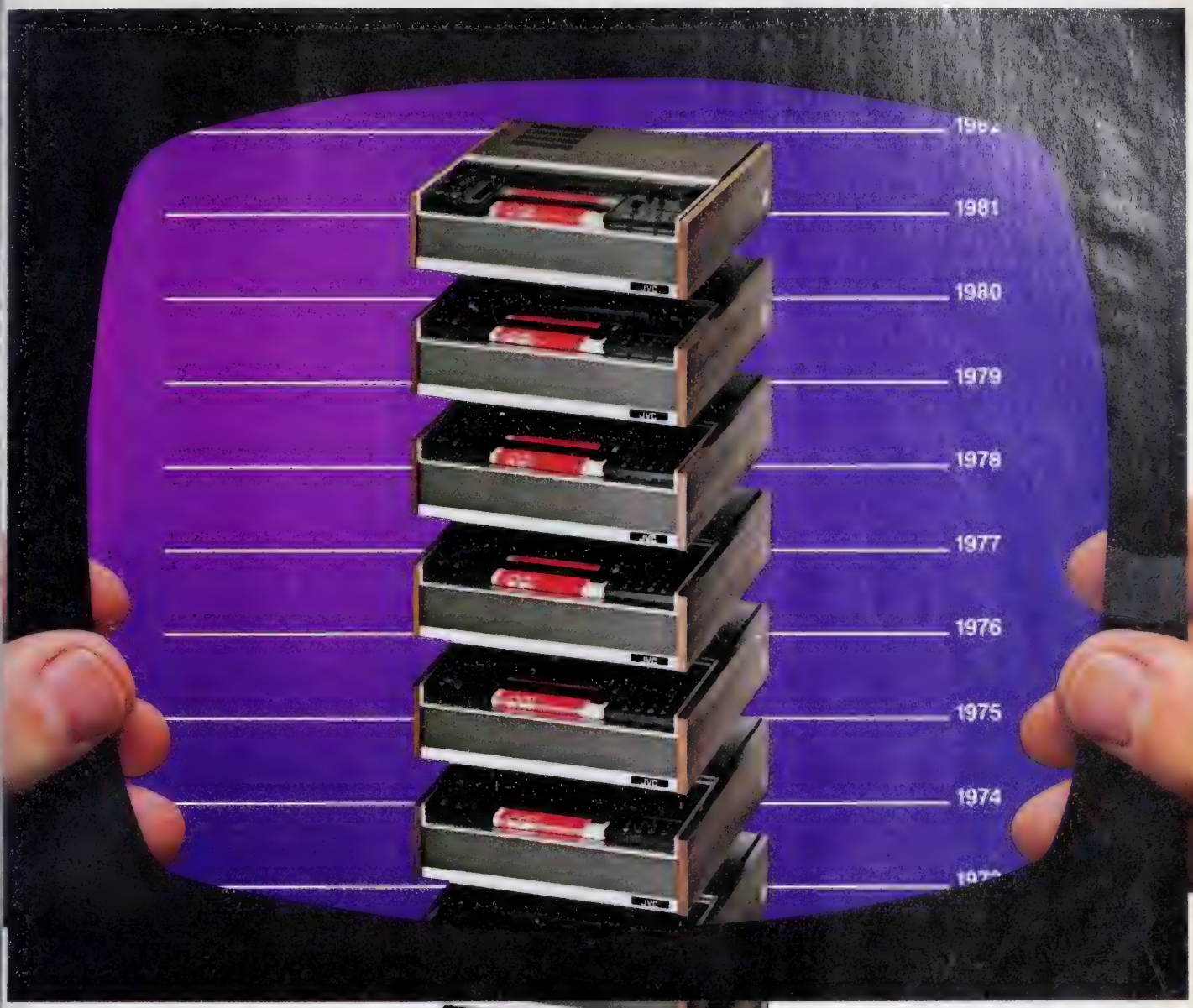
FORBES had fun with "Tom Swift an electric hamburger cooker" *(Oct 1977)*, a report on National Presto In tries and its home-cooking gadgets. Eau Claire, Wis. company was amused, and Melvin Cohen, its c man, confesses he was "some stung" by the skepticism about firm's future. The appliances had National Presto sizzling when its main business, artillery shells, went limbo with the end of the Vietnam FORBES conceded the successes—8.5 lion PrestoBurgers and almost as r Hot Doggers sold in a single year- wondered whether "the mine migh playing out."

For the next year, FORBES' res tions were more than borne out. C had conceded that his products h short market life, with imitators p to cash in on his brainstorms. ("" don't innovate," he said. "They co In 1978, he says, the hamburger co was "dead down" and Presto was i grease. Sales cooled off, from $146 lion to $84 million, and earnings share from $4.29 to an unappeti $1.50. Then came Melvin Cohen's In 1979 new products—and new st gy—sent sales back to $101 million per-share earnings to $3.22. And



National Presto's Melvin Cohen
Tom Swift and his electric comeba

Sold!



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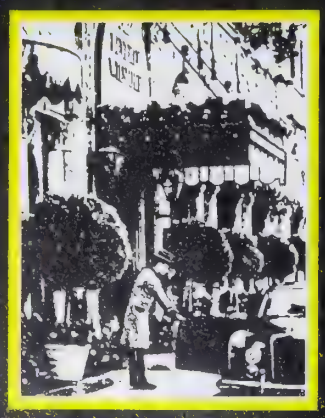

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Follow-Through

1980, the diamond anniversary o company, the results were tastier s $118 million in sales, and $5 per sh earnings.

Presto had been relying on the that young singles and couples hipped on fast foods and the too cook them. Now the main ingredie Presto's plans are the high prices of line and entertainment, items that even swingers want to stay home. hottest products in Presto's line t Cohen says, are its hot-air corn po and portable electric heaters. An likes his balance sheet, with $62.5 lion in cash and a ratio of assets to li ties of 4.6-to-1. With those numbe says, "the standards for acquisition elevated." (Presto has already m profitably, in and out of printing, t ing and direct selling.) And sitting q ly in mothballs are Presto's asse lines for artillery ammunition, w make it, in Cohen's words, "the w preeminent potential producer 105mm and 8-inch shells."

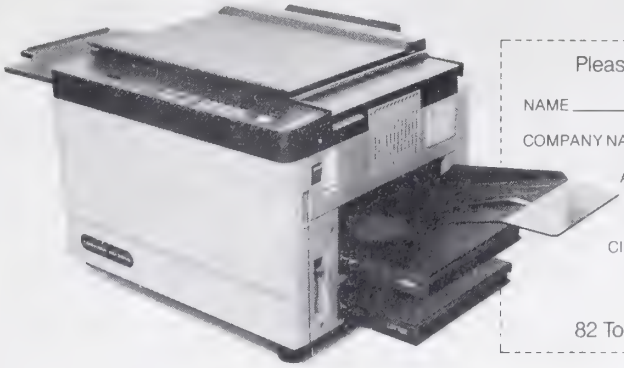
Mayday in Tokyo

Detroit's screams for help against nese automobiles have drowned similar cries of anguish from a key ment of Tokyo's economy, its alumi producers. Last year FORBES *(July 1980)* pointed out that Japanese al num makers had discovered that could no longer compete with American rivals. The reason was sim Japan's smelters use high-priced im ed oil for 72% of their electric pow major ingredient in aluminum; their counterparts get 38% of their ener bargain-basement prices from h plants and another 41% from coal. result was that an American alumi ingot, tariff and all, could sell in Japa $485 per metric ton less than the $ tag on a local product. A year before Japanese had been forced to shut d 30% of their smelting capacity.

Since then things have gone from to worse and the Japanese have forced to go abroad for more and mo their supply of the lightweight met 1977 they brought in 5,600 metric of U.S. ingots; by 1979 it was 90,000 and in 1980, 307,000. Despite the sure, however, the Japanese hac mained stoic—until now. Only months ago Yoshimasa Matsunaga, of the Japan Aluminum Federation president of Nippon Light Metal, denying that his industry was plan any counteraction. With Ame ingots continuing to pour into Ja however, the mood has intensified the "concern" Matsunaga expresse something closer to desperation.

Here is a complete list of all dry plain paper copiers under $3500 with dual paper cassettes, microprocessor control, and automatic toner replenishment.

1. Toshiba BD-3503



Please tell me more about the Toshiba BD-3503 Copier. FOR-5

NAME _____ TITLE _____

COMPANY NAME _____

ADDRESS _____

PHONE _____

CITY _____ STATE _____ ZIP _____

TOSHIBA AMERICA, INC.
Business Equipment Division
82 Totowa Road, Wayne, N.J. 07470 Tel. (201) 628-8000

Russ Lowe, long time user of Nabisco products, getting Nabisco stock information from market specialist Bob Fraiman.

In the stock market or the supermarket, it pays to check out Nabisco.

Russ Lowe not only buys Nabisco products. He buys Nabisco stock, too. Russ learned about us in the supermarket, as do many of our stockholders. And when they check us out in the stock market, many of them are impressed by what they find.

For instance:

- Nabisco sales reached $2.6 billion in 1980.
- Net income per share has grown from $1.85 in 1975 to $3.96 in 1980.
- Dividends have increased 6 times in the last 5 years to the current indicated annual rate of $1.80 in 1980.
- Return on shareholders' equity for 1980 exceeded 20%.

Nabisco has a lot to say to the investment community...about our products and our profits. It seems that people like Russ, who know and enjoy Nabisco products, are some of the best prospects to buy our stock. With high quality products plus financial results and dividend growth like ours, it pays to check out Nabisco.

For more information pertinent to the financial community, contact us for our Annual Report to Shareholders and reprints of our ad campaign. Write Nabisco, Inc., Dept. F1, East Hanover, NJ 07936.

Nabisco. People think of us when they're in the market.

PREMIUM Saltines, OREO Cookies, FIG NEWTONS Cakes, RITZ Crackers, TRISCUIT Wafers, SPOON SIZE Shredded Wheat, MILK-BONE Dog Biscuits, JUNIOR Mints Candies, GERITOL Iron and Vitamin Supplement, AQUA VELVA After Shave.

Alabama Bancorporation, the bank holding company that is known for performance, is now known as:

AmSouth

While we've changed our name, our commitment to continue as one of the best performing financial organizations in the Southeast remains the same. Look for our listing on the New York Stock Exchange on May 20, symbol: ASO. For our latest annual report, write: *Financial Public Relations, AmSouth Bancorporation, P.O. Box 11007, Birmingham, AL 35288.*

The First National Bank of Birmingham, The American National Bank & Trust Company of Mobile, The Alabama National Bank of Montgomery, First National Bank of Decatur, The Commercial National Bank of Anniston, The American National Bank of Huntsville, The City National Bank of Selma, The Bank of East Alabama, Fort Payne Bank, The Bank of Arab, Shoals National Bank of Florence, The Bank of Sulligent, Baldwin National Bank, Citizens National Bank of Limestone County, The Farmers & Merchants Bank of Ashford, Bank of Gadsden, Peoples Banks of Tuscaloosa, Citizens Bank & Trust Company, AmSouth Financial Corporation, Engel Mortgage Company, First National Bank of Autauga County (pending affiliation).
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Chivas Regal • 12 Years Old Worldwide • Blended Scotch Whisky • 86 Proof •
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Follow-Through

spite Japan's tradition of jobs-fo
25% of its aluminum workers have
laid off.) Like U.S. automen who
lost 25% of their business to Japan,
pon's aluminum makers, who see A
cans now commanding 14% of
market, are talking of government
What form that may take is as inde
as the moves the Reagan Administr
is making to help Detroit. Last mo
group representing Japan's alum
unions journeyed to the U.S. to ple
help with American producers an
United Steelworkers. (Their cue
from United Auto Workers chief Do
Fraser, who trekked to Tokyo last y
urge the Japanese to cut back on
shipments to the U.S.) Like Fraser
Japanese got an audience, sympa
and little else.

Second effort

In ten years, FORBES reported two m
ago *(Mar. 16)*, Lonnie Williams, a D
Bronco linebacker until he was side
by a knee injury, had gone from the
iron to the ranks of Oklahoma's oil
lionaires. His wholly owned L.G.
liams Corp. had grossed $37 milli
1980. "Not bad for an ex-jock who
know anything about the oil business
said. With 56,000 net acres of reserve
another 20,000 acres still undrilled,
liams talked of going public next
"This is a business where fortitud
hard work still pay. Money doesn'
press me and zero doesn't scare me."

A few weeks later Williams was ca
upon others to display their fortitud
Mar. 30 he dispatched a letter to su
ers and other concerned parties
opened with: "As you are aware, we
recently been experiencing cash flo
ficulties." To solve this, it went on,
are actively pursuing capitalization
grams within and without the indus
Williams claimed he had a "mut
beneficial agreement" with sourc
private capital but that "associated b
ing requirements have complicate
situation." Nonetheless he hoped to
his money by Apr. 30. To underscor
effort he was putting out, Williams
that the search was "ongoing at all h
during the day . . . and constant i
ruptions could impede the progre
negotiations." For that reason, he
asking his correspondents to "re
from calling us on all but matters
absolutely require answers."

When FORBES supplied one of t
necessary interruptions, Williams
flatly: "I'm not going bankrupt." A
his difficulties: "Sure, we're having
flow problems. Everybody in this
ness has 'em . . . including Exxon."

© 1981 Eastern Air Lines, Inc

"FIVE YEARS AGO I WAS ALMOST APOLOGETIC. A LOT HAS CHANGED SINCE THEN."

-FRANK BORMAN, PRESIDENT, EASTERN AIRLINES

"When I first started appearing in Eastern advertising in 1976, it was no secret that our service needed improving. And for the past five years, the people of Eastern have made a great effort. From top to bottom. Today, I'll stack our service up against anyone's.

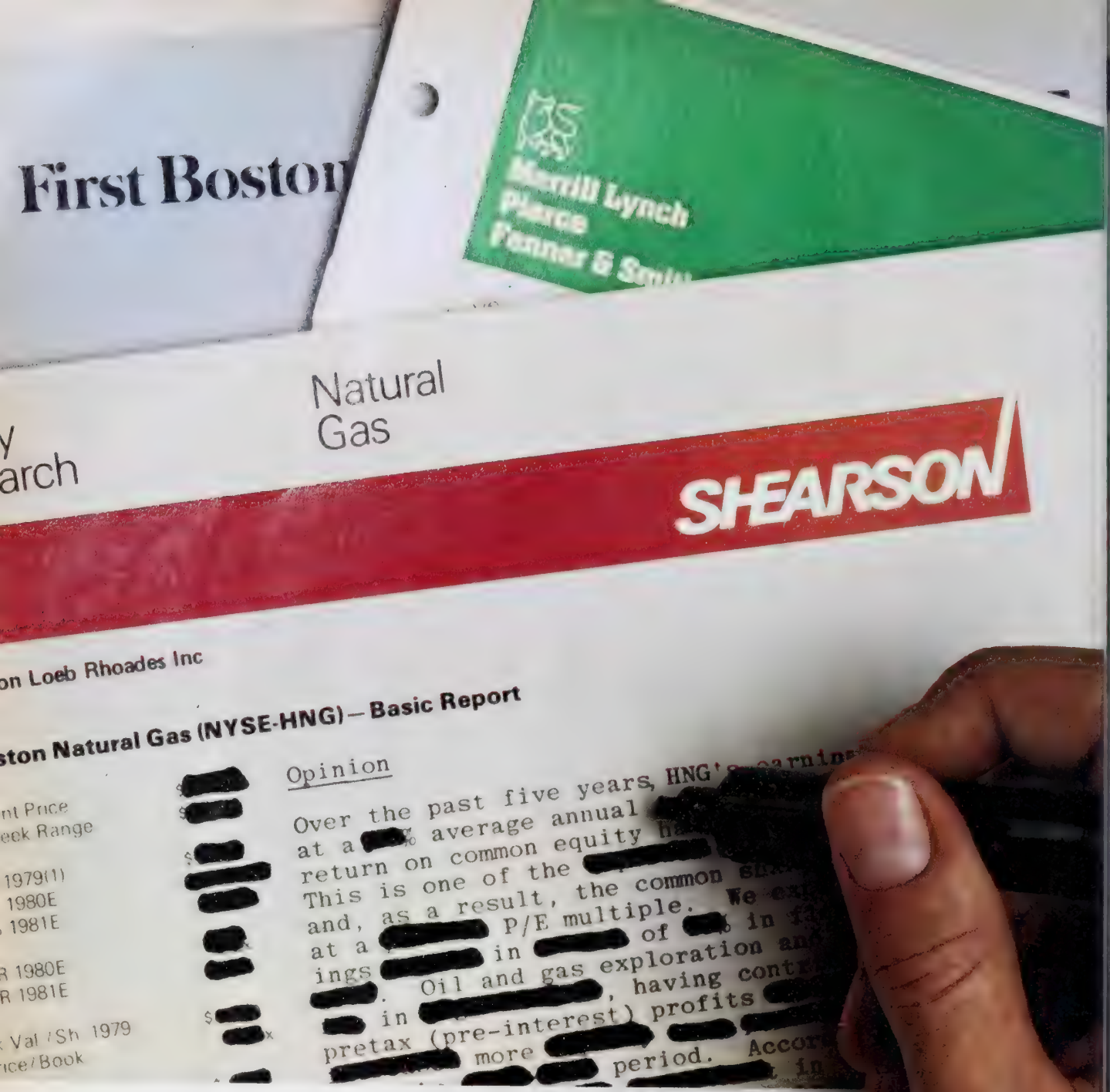
The public seems to have noticed the improvement, too. Because for the last two years, more people have chosen to fly Eastern than any other airline in the free world.

That tells me our people are doing a fine job.

After all, I may get you to fly Eastern once, but they're the ones who get you to come back."

EASTERN

WE HAVE TO EARN OUR WINGS EVERY DAY™



Houston Natural Gas has absolutely nothing to hide.

We'd be delighted to have you read every word the major brokerage firms are writing about HNG. But advertising standards prevent us from featuring their opinions in this ad.

So instead, we'll point out that our net income has increased an average of 21% over the last five years. And return on equity has averaged 25% over the same period.

We encourage you to read the full story for yourself, or ask your financial analyst.

HNG
HOUSTON NATURAL GAS

HNG derives approximately 72% of its income, before interest expense and income taxes, from oil and gas transmission, exploration and production. The balance comes from marine activities, industrial gases and coal.

The business of big oil

: You singled out Standard Oil of Cali-
nia as one of "those big oil companies
nding billions to take over major min-
l companies instead of using their
ge cash piles to develop additional en-
y sources or for refineries able to han-
today's far heavier crudes" *(Fact and
nment, Apr. 13)*. Socal's offer to acquire
remaining 80% of Amax did not in-
ve a large cash outlay. A merger with
ax would have no negative effect on
petroleum exploration and develop-
nt program we now are pursuing, or
nning. Our worldwide capital and ex-
ratory investments reached a new
h last year. We are spending signifi-
t amounts in the alternate energy-
thetic fuels fields, including shale oil,
sands, uranium, solar, wind power,
hol fuels, and coal liquefaction and
ification. Substantial capital expendi-
es also are being made by our com-
y to equip our refineries to handle
vier crudes.
ou seem to feel that it's all right for
companies to diversify into coal.
ax, of course, is the nation's third-
gest coal producer.
ou assert that some oil companies are "crying" because the Reagan Administration is going to cut back federal funding for synfuel and other energy research. Our company believes private industry should fund synthetic fuels development, with government encouraging the effort by appropriate front-end tax incentives such as accelerated depreciation.
—*W.K. Morris*
Vice President,
Standard Oil Co. of California
San Francisco, Calif.

SIR: As a petroleum company stockholder, I am glad that management has the foresight, through moderate diversification, to hedge our investments.
—*M.L. Ulrich*
Portola Valley, Calif.

SIR: The need for natural resources other than oil and natural gas is also critical, so the additional amounts the oil companies can spend in this area will be very productive.
—*Eric Bjornlund*
Sarasota, Fla.

SIR: The record of diversification of the oil companies has been a disaster. A major disservice is done to shareholders. I call your attention to my article, which appeared in the March/April 1979 issue of the *Financial Analysts Journal*.
—*David Norr*
Harrison, N.Y.

SIR: Obviously some of the hot air used to inflate your balloon escaped and is lodged between your ears. Any acquisitions they made, or might make, do not have to be "justified" to anyone except the stockholders.
—*Frank R. Nelson*
Aberdeen, S. Dak.

SIR: Isn't it outrageous that profits and (more important) managerial attention go from a business magazine into real estate, Russian Easter eggs and long-distance ballooning?
—*G. Mueden*
New York, N.Y.

Not so fast

SIR: In your Economy column *(Mar. 30)*, you say, "Corn is now about 30% higher than a year ago. But at a Manhattan supermarket this . . . translates into a 100% increase in the price of Kellogg's Special K." Corn is not an ingredient in Special K. The principal grain is rice, one

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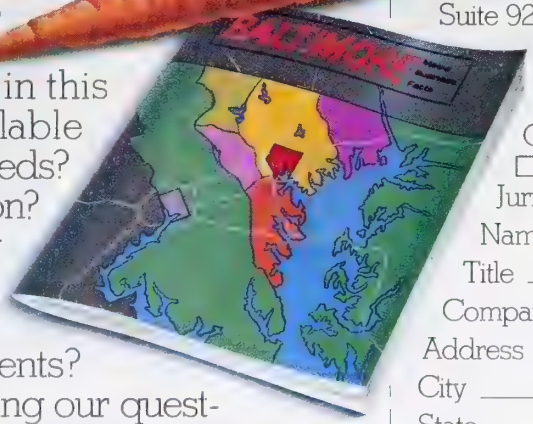

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Along with book, send additional information on: ☐ Anne Arundel County ☐ Baltimore City ☐ Baltimore County ☐ Carroll County ☐ Harford County ☐ Howard County ☐ All Jurisdictions Listed.

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Title _____
Company _____
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City _____
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The Gas Option

Gas: America's best energy investment.

Capital requirements of the gas industry over the next two decades are expected to exceed $400 billion. A large part of these outlays will be needed for developing new sources of additional gas supplies such as coal gasification and gas from Alaska. The remainder will be for utility and pipeline construction, plus maintenance.

But this investment will be cost-effective. Because gas-based systems require substantially less initial capital investment than other energy systems supplying equivalent amounts of additional energy. Consider the alternatives for one end-use application—premium industrial usage, as illustrated by the chart below:

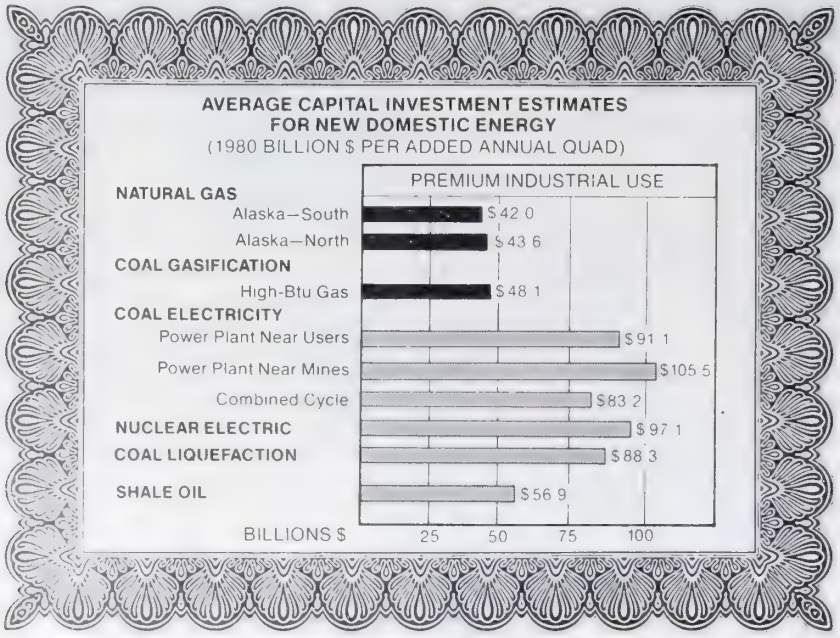
- Investment needed to provide an added quadrillion Btu's (quad/yr.) of electricity ranges from $83 to $105 billion. Also the investment to provide a similar amount of energy from shale oil and coal liquefaction for the same end-use ranges from $57 to $88 billion.

- By contrast, the investment to provide an added quad/yr. of gaseous fuel ranges from $42 billion for new natural gas supplies from Alaska to $48 billion for high Btu coal gasification.

All sources of energy will play an important role in meeting America's future energy needs. And the gas industry has consistently recognized that each should make its biggest contribution in the job it does best. Oil for instance, is essential as our primary transportation fuel. Electricity is needed for our lights, motors, industrial automation and many other uses. Gas serves over 55% of the homes in America and provides nearly 40% of the energy for industry and agriculture.

And coal, of which we have such a tremendous supply, can and must be used to a greater extent. For instance, the combined combustion of coal with gas can greatly increase the amount of coal which can be used for power generation, while still meeting air emissions standards.

As we move to develop future energy sources, the advantages of a gas system become increasingly significant. The facts are clear. What we need today and tomorrow—clean, efficient, economical energy—the gas system delivers. The Gas Option is one we cannot afford to ignore.



A Energy Analysis: Comparison of Initial Capital Investment Requirements for New Domestic Energy Supplies

Gas: The future belongs to the efficient.

*For more information, write to American Gas Association, Dept 31-DD, 1515 Wilson Blvd, Arlington, Va 22209 © A.G.A. 1981

How to profit from a company that's not on the stock exchange.

The Austin Company is privately owned, so it's not listed on any stock exchange. But Austin can help your company benefit in three important ways.

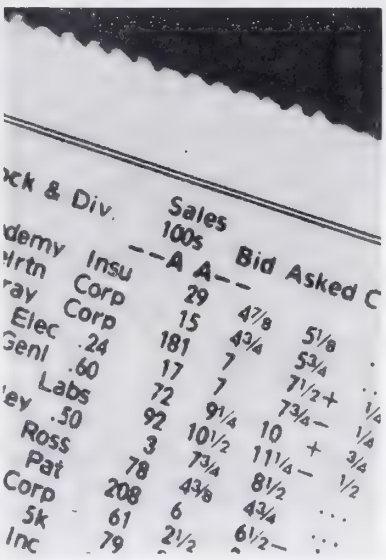
Profit from Austin's design-build efficiency.

As one of America's largest design-build firms, we've completed more than 25,000 projects—worldwide. In over a century of experience, we've designed and built aircraft, automobile and chemical plants. Research, food and fermentation facilities. Foundries, hospitals, banks, newspapers, distribution centers and more.

We deliver efficient facilities, on accelerated schedules, with undivided responsibility.

Profit from Austin's management consulting expertise.

Austin's Management Consulting Division has proved its ability to solve many of management's toughest problems, for Forbes 500 companies and for outstanding smaller firms. We're experienced in productivity improvement, market research, information systems and many other areas.



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Austin's Advanced Technology Systems Division is ready to address your technology needs from problem definition through hardware fabrication and testing. We offer state-of-the-art expertise in optics, electronics, mechanics and computer science.

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Why you should consult the bank that placed 3100 dots on the map of the Netherlands.

Rabobank Nederland* heads a co-operative banking organisation with 3100 offices on the Netherlands' 41,000 square kilometres. On-the-spot services therefore are available in every part of the country.

Rabobank is the largest provider of credit to the Dutch agricultural sector, and plays a key role in agribusiness finance.

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Rabobank Nederland is a member of the Unico Banking Group, in which 6 major European co-operative banks work together.
As a group, these banks have total assets of some US $ 400 billion and 36,000 offices.

Total assets of more than 94 billion Dutch guilders (approx. US $ 47 billion) place Rabobank among the 25 largest banks in the world. Sound reasons to consult the bank that placed 3100 dots on the map of the Netherlands.

Rembrandt country is Rabobank country.
The country which inspired Rembrandt's internationally acclaimed masterpieces has inspired the Rabobank to create services of worldwide importance.

Rabobank Nederland, International Division, Catharijnesingel 30, 3511 GB Utrecht, the Netherlands. Telex 40200.

Representative Office Frankfurt, Friedrich-Ebert-Anlage 2-14, D-6000 Frankfurt am Main 1, West Germany. Telex 413873.

Rabobank

Rembrandt country is Rabobank country.

*Member of the UNICO BANKING GROUP

Readers Say

:he highest-cost grains in the U.S. As the price of Special K, if we index the rage price of ready-to-eat cereals in '3 at 100, Special K would carry an ex figure of 136. Special K has not reased over the past eight years as fast ıll ready-to-eat cereals.

.E. LaMothe
irman and CEO,
ogg Co.
le Creek, Mich.

Oil reserves needed

: Re "Who gets the windfall?" *(Trends, 13)*. Unclaimed funds should be used buy oil for our government's reserves.

hn G. Brusca
ding, Penna.

Personal savings

: Former House Ways & Means Comtee Chairman Wilbur Mills says, inety percent of what folks get back in / of reduction isn't saved, it's spent," "That's inflationary. . . . " *(Apr. 13)*. must be kidding. The 10% saving by ividuals will be infinitely more than ernment saving.

la Vitez
vood, Md.

Blame the doctors?

In "Paging Dr. Adam Smith" *(Apr.* a caption says, "Don't blame the tors for soaring hospital costs. . . . " admitting a patient and ordering a ery of tests and examinations, the tor plays a prominent role in the genion of hospital charges. Although he / bill a patient for rendered services, result of which does not directly af- hospital costs, the separate billing ainly contributes to the total cost of lth care.

uglas W. McNeill
President of Operations,
on Community Hospital
on, Ohio

Ramada Inns

The Oct. 27 issue of the magazine tained the statement that Ramada "built in part by the Teamsters-ficed Jupiter Co. of Chicago." Jupiter never anything more to Ramada ı the passive holder of a small minorinterest that it acquired from a prior ıer in 1960 and held for only a few 's. It never paid anything to Ramada, icipated in Ramada's management

Radio Shack's TRS-80™ Desktop Business Computer. Put It to Work for You!

At $2495, Doing Business Was Never So Easy. Now tackle your tough business problems with Radio Shack's TRS-80 Model III Desktop Business Computer. It's powerful, yet incredibly easy to use. In fact, thanks to Radio Shack's wide selection of ready-to-run software, you don't need to write programs unless you want to!

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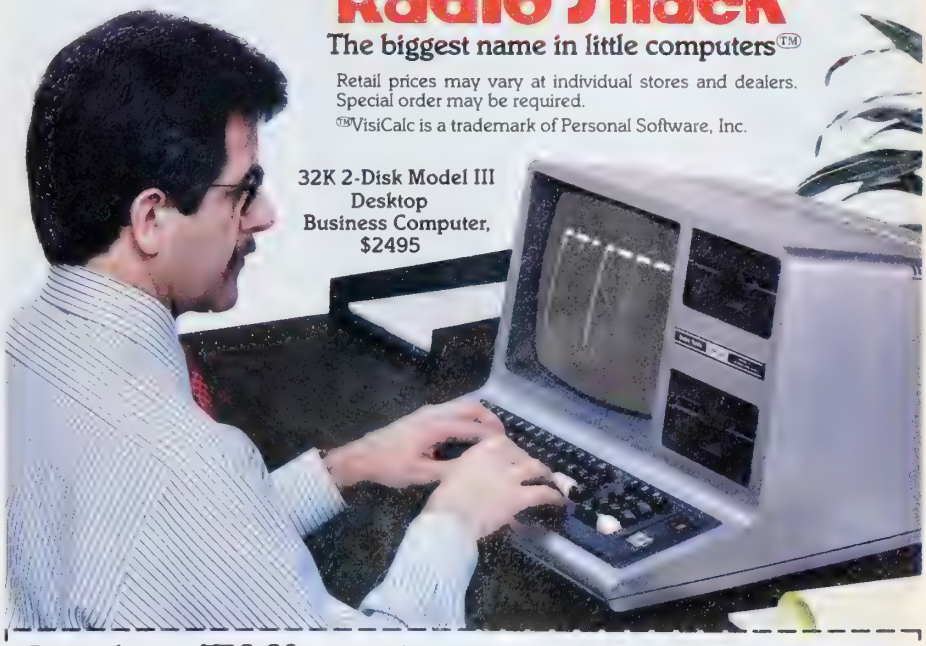

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Two keystones of a healthy economy are achieving unparalleled importance in this decade, energy and transportation. North American Royalties, Inc., has a commitment to continued success in helping assure the increased availability of both. Through its Oil and Gas Division, NAR finds, develops and produces oil and gas resources in the continental United States. Through its Wheland Foundry Division, NAR produces grey iron castings which become parts of more than half of all automobiles manufactured in this country. With a proud history of 115 years of operations, NAR is expanding and intensifying its role of service to industries shaping the economy.

For information and an annual report write Corporate Communications

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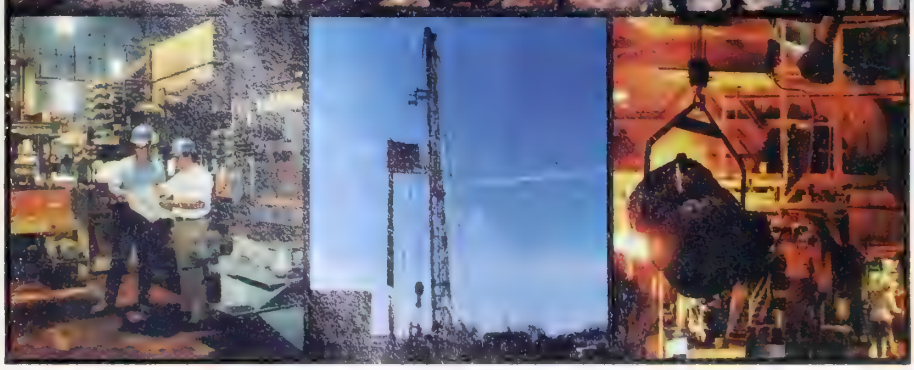
NAR

NAR: Meeting Needs Vital To The Nation's Economy



Readers Say

nor "built" any part of Ramada. Ju
owned less than 7% of Ramada's
standing stock. Our records indicate
Jupiter disposed of most of its Ran
stock by the end of 1963.
—M. William Isbell
Chairman,
Ramada Inns, Inc.
Phoenix, Ariz.

Bottom-line verse

SIR: All that grousing over profits sl
ing up in the spring crop of annua
ports has inspired this little verse:

A net profit is fine
just as long as it's mine.
But I piously whine
if perchance it is thine.
Oppressive and greedy!
Unfair to the needy!
So let *yours* the next time
be a dash bottom line.

—M. Robert Paglee
Moorestown, N.J.

Senator Chafee comment

SIR: Re "Save the Pensions" *(Mar*
Never have I supported legislation o
vocated the concept of forcing pens
"to put more money into such econ
cally depressed areas as the Midwe
Northeast." As chairman of the Se
Finance Subcommittee on Savings,
sions & Investment Policy, I inten
hold hearings on a number of pen
issues. If hearings can reveal profit
investment strategies that fund in
tors have been overlooking in the Ne
east that are consistent with obtai
the highest and safest return for pen
beneficiaries, then a useful purpose
have been served. If there are legal o
cles to such investments, perhaps
should be removed.

The pension industry and I share
same abhorrence of compulsory gov
ment intervention in pension fun
vestment strategies.
—Senator John H. Chafee (R–R.I.)
U.S. Senate,
Washington, D.C.

Western art

SIR: Re your article *(Fact and Comm*
Mar. 30) describing the growing av
ness of Western art in America.
Boy's Club here plays host to an Ori
Western Art Show and Auction each
tober. We get more and more inqu
about both participation and purcha
Western art.

No strong interest in the arts an

Free your captive!

Free from surprises.

Free from the nagging uncertainty of catastrophe losses and fluctuating reinsurance costs that make cash flow management difficult.

General Re underwriters answer your questions about coverage availability, rates, capacity and reserving techniques and offer the added benefit of our expert analysis of large loss potential.

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"HERE'S SOUTHERN RAILWAY" FOR THE AUTOMOTIVE INDUSTRY

"THE LONG AND...

The simple fact is, that the way the energy situation is today and, undoubtedly, will be tomorrow, railroads make more sense for long hauls than trucks do.

Because railroads are a lot more energy-efficient than trucks.

But does that mean trucks will soon be a thing of the past for the automotive industry? No. We think trucks have a very definite place in the future of transportation.

As long as trucks are used in the right place.

Harold H. Hall, President
Southern Railway System
Washington, D.C. 20013

NSWER TO THE ENERGY SHORTAGE

THE SHORT OF IT"

The right job for trucks is the short haul where the railroad begins and ends.

We believe so much in this concept, and its important implications for the future of this country, that we've set up a system to capitalize on our advantage for long hauls and trucks' advantage for short hauls. We've made interchange agreements with over 180 trucking firms all over our route to give you dock to dock service even when your dock isn't on our railroad.

We think the wave of the future is to have each mode of transportation do what it does best.

We have the energy for the long haul.

SOUTHERN

THE RAILWAY SYSTEM THAT GIVES A GREEN LIGHT TO INNOVATIONS

Richer. And, of course, costlier. For the very good reason that it is blended from the Cognacs of more than 70 select vineyards, all of which lie within France's two pre-eminent Cognac districts, Grande Champagne and Petite Champagne. Truly, the world's most civilized spirit.

Hennessy V.S.O.P.

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After 50 Years Of Chemical Research, Du Pont Still Appreciates The Elements Of Virginia.

In 1929, Du Pont entered the state of Virginia with the goal of producing products and generating a profit. And now, 50 years later, Du Pont continues to thrive and expand here because of the special elements that make up the business climate of Virginia.

Elements like a state budget that's balanced. A fair and reasonable rate of taxation. A strongly enforced right to work law and a large labor force.

So if you're looking for the best location for your company, take a look at Du Pont's history of success in Virginia. You'll find that Virginia's formula for business is something any company would appreciate. Just contact the Division of Industrial Development, Dept. F7, Richmond, Virginia 23219.

Virginia

Readers Say

relation to our heritage was really sh by people in our area until the last years. Now they are investing.

Although the urban cowboys p will probably pass (as all phases d think the interest in Western art is to stay.

—Wanita Gravatt
Rapid City, S. Dak.

Thorough story

SIR: As one who is completely invo with the Thoroughbred industry i most every capacity (as a seller, I sold four Thoroughbreds at public tion at world record prices at the tim sale), I found your cover story *(Mar* the best analysis of the present stat the industry published anywhere.

—John A. Bell III
President,
Cromwell Bloodstock Agency, Ltd.
Lexington, Ky.

Only recent cases

SIR: In "When lawyers prosper" *(30)*, I was quoted, "I'd characterize t as lawyers' cases, not true disab claims." This was specifically relate most of the recently filed cases. treatment of my statement would i cate that I deny the existence of disability related to excess asbestos i lation. Obviously this is not the case

—G. Earl Parker
Senior Vice President & Secretary,
Johns-Manville Corp.
Denver, Colo.

Butter over tobacco

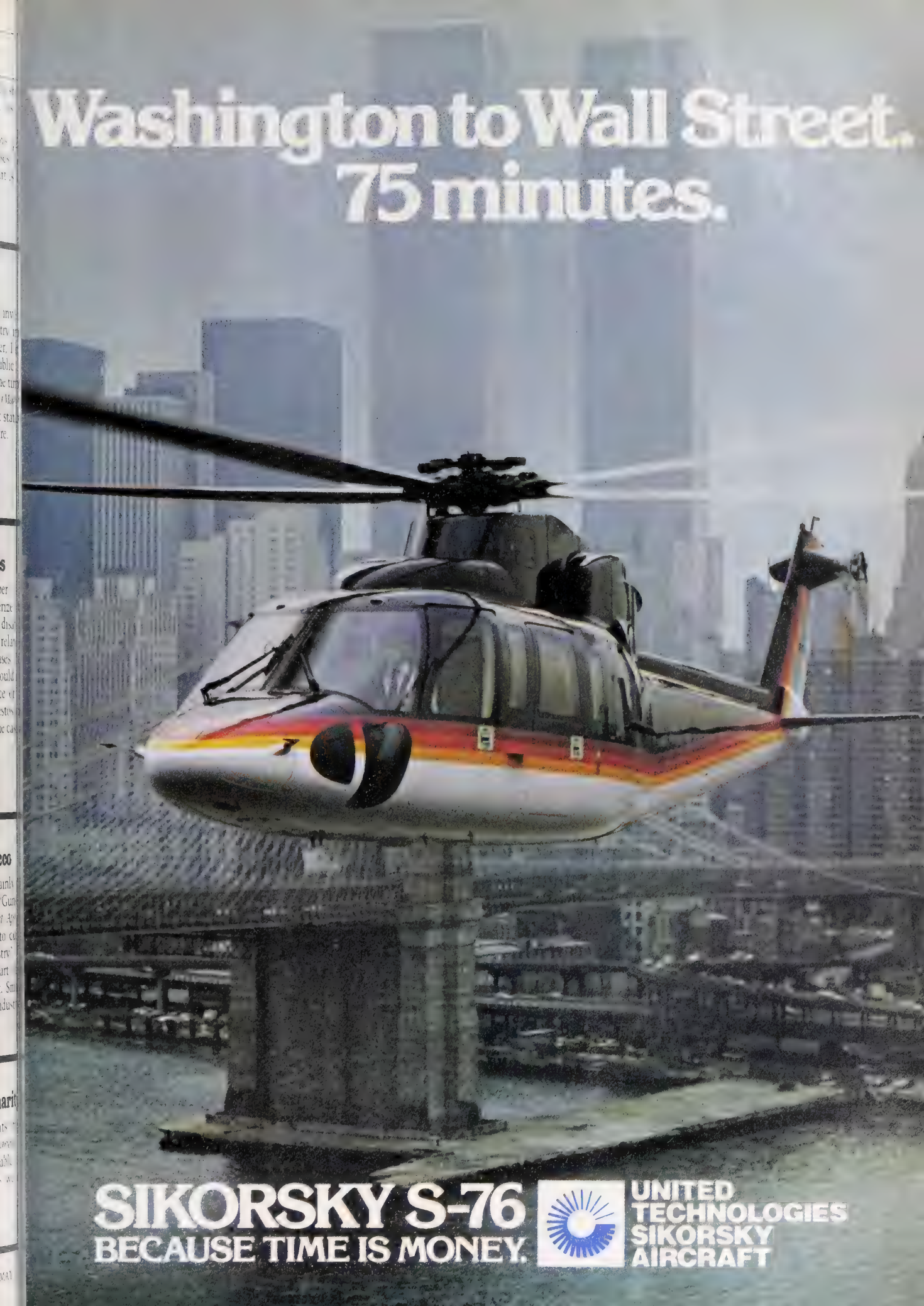
SIR: The dairy industry certainly not need additional support ("Guns not butter," *Fact and Comment, Apr.* but when do the Feds plan to cut subsidy to the tobacco industry? " ter" may be considered a part of dietary needs; tobacco is not. Smo should directly support that industry

—Etta Everett
Fairplay, Colo.

Better to give to charity

SIR: I am with your "no presents" fri as to party gifts *(Fact and Comment, 16)*. We are enjoying charitable d tions much more than gifts we c know what to do with.

—Lisl Fruehman
Indianapolis, Ind.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ITS TECHNOLOGY IS
EQUALLY COMFORTING.
With its electronic engine controls, electronic fuel injection, Automatic Overdrive Transmission and computer-analyzed design, the 1981 Lincoln Town Car lets your mind feel as good as the rest of you.
Perhaps even more reassuring is the fact that the Lincoln Town Car now comes with the Extended Service Plan. Free.
Lincoln Town Car. It puts your mind at ease. As well as your body.
LINCOLN
LINCOLN-MERCURY DIVISION
Ford

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An eminently successful timepiece from Corum.
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

WHEN IT COMES TO MASSAGING FIGURES

masseurs are amateurs compared to politiconomists.

LET'S CEASE OVERPLAYING QUARTERLY EARNING REPORTS

One of the earliest to make major use of quarterly earnings a thermometer to keep tabs on corporate health, FORBES ped bring about what's become a most unhealthy emphasis these figures.

Now daily bold headlines about specific companies' quarter- earnings being up or down vis-à-vis the same quarter a year usually have immediate impact on their stock prices, more n than not for no *good* cause.

three-month profits are comparatively way Up or Down, it be for any number of extraneous reasons—currency fluctu- ns; one-time windfalls or bullet-biting writeoffs; the high t-up costs for new plants or for launching new products of t potential. Some very special reasons could make a quar- y report Down and, if properly understood and reported, uld send a stock quotation up.

Despite what we all have said all too often, "the bottom line" at any one time is *not* the ultimate sole criterion for judging corporate worth, corporate prospects. It's the figuring behind that figure which gives it true meaning. There is no meaningful finality in the figure itself.

Too many managements—under quarterly intense press scrutiny—take to juggling, managing, overemphasizing the need to look good at a cost to long-range capital investment, research and development.

It's up to the likes of us to try and dig out, make clear why a quarterly earnings report or any other regularly timed bottom-line profit measurement isn't the whole story.

It's up to gutful CEOs to take the flak instead of bidding for quickie applause when earnings *should* be down in the longer-run best interests of the company whose helm they have.

THREE FOUL BALLS

hose three very conservative G.O.P. senators who joined Democrats to sidetrack the Reagan budget each hit a . In setting back the momentum of the President's tough get because it doesn't balance as quickly as they want, tors Armstrong (Colo.), Symms (Idaho) and Grassley (Iowa) did a dumb thing and played into the mitts of Democrats opposed to the Reagan program for exactly the opposite reasons.

Two more such strikes and these anti-teamplayers would be out by baseball's rules . . . and maybe benched by the voters.

DON'T MUCK UP THE RAPID DEPLOYMENT FORCE

's now supposed to be coming into being so that our tary can react with swift and measurable impact in the ian Gulf should the Free World's oil jugular be threatened. talk of basing or having an alert force that could cope a full-fledged neighboring Russian invasion is time-wast- nonsense. Having at the ready a coordinated, trained, pped, combined U.S. force to cope with military threats t of a U.S.S.R. all-out assault is eminently doable—just so as the President and his Secretary of Defense issue decisions instead of lending their ears overlong to interservice squabbles over which Brass calls the tunes.

A beefed-up Marine Corps is the prime ingredient for a feasible RDF—that's been their whole mission, tradition and knowhow. It's what the Marines are for, and what they've accomplished in that capacity is immeasurable.

If our military involvement has to be far larger and longer than RDF scenarios allow, calling for much greater land, sea and air power, then very different command structures are

called for. A couple of Marine divisions and an elitist (in the sense of morale, equipment and training) army division must be made ready *now*, with camouflage gear, tanks and trucks equipped to function in the desert, plus all the other supportive stuff we turned out not to have in our recent Egyptian exercise. We should try to borrow instructors from Israel and Egypt. They've already been combatively through Middle East sands several times.

Putting together on paper and imposing a command structure for a Rapid Deployment Force for the Persian Gulf, p cated on huge land bases in the Middle East, isn't real Such bases could inflame the very situations the For intended to help put out.

Let's not confuse the RDF with the Army, the Navy an Air Force. These services all have vast needs to fill if conventional military capability for our NATO commitm alone is to be convincing, if the U.S. military is to be rea ably comparable to that of the U.S.S.R.

ONE SUPER VERSUS ONE ABSURD INDUSTRIAL SELL

The connection between sex and aluminum beams? "If you stop and think about it, concrete formwork made of wood or steel has a lot in common with the extinct whalebone corset." This labored absurdness is meant to sell hardheaded contractors?

On the other hand, that dramatic landing shot of the Space Shuttle (this ad ran a year and a half ago!) compels a readin the brief copy, which sells both Crane products (such as automatic antiskid brake controls demonstrated in use in photograph) and an impactful corporate image.

JERRY BROWN COMES IN FROM WAY OUT

California's Governor Brown (of Linda Ronstadt fame) has come off the pad in the Right direction. Why such a shift? Because a governor who wants to be senator (he sees slim presidential pickin's ahead) has to be able to shift directions quicker than a long-tailed cat in a roomful of rocking chairs.

Since the passing of Proposition 13 and the ascension of the Ronnie Right, California's charismatic governing guru has come East to spread the word among the money changers that the California sun—for now, anyway—shines for business. Corporations are—currently—being warmly wooed in the Brown West.

Not long ago he broke bread with us here. He talked of his tight budget and his effort to hold California's cost-of-living adjustments to 5% maximum.

He really did sound convincing in the avowals to make California's climate as attractive to businesses as it is to sunfun seekers. I guess if Supreme Court Justices can be said to follow—eventually—election results, so, too, can it be said of public figures who'd like to continue to be. To querying, he admitted he'd been "giving some thought" to U.S. Senate next year when the term of incumbent Republi Hayakawa of dubious distinction is up.

As part of his new image, on the way home from his visit E Governor Brown attended the New Orleans Superbowl. *Hun Events* quotes one of the governor's aides as observing that governor "didn't really know what the Superbowl was."

And at a party saluting the 15th anniversary of Willi Buckley's popular television talk show *Firing Line*, th stood the personable Brown enthusiastically pumping hands as they came to end of a receiving line t included Anne Armstro Louis S. Auchincloss, Alist Cooke, Vernon E. Jordan and William E. Simon.

The Republicans may l Hayakawa, but not necessa the votes of a Senator Bro if his present sounds sho win him the seat.

In from the cold: (l. to r.) *Steve Forbes, Governor Brown, MSF*

OIL COMPANIES AND OIL COUNTRIES SUFFERING

the pangs of glut during this brief shining moment of Gasalot can readily ease their trauma. They can sell all the crude they can get of these slightly-down-in-the-price barrels to fill our nearly nonexistent salt-dome emergency reserve. Action please, Energy Edwards!

AT $10 BILLION, THE SHUTTLE COST LESS THAN HALF

vhat it would cost to put an atomic carrier in foreign waters h the necessary support.

y putting us ahead in space, better positioning us for future ce exploration, and greatly increasing military defense capabilities, the shuttle puts us not only back in the power game on earth, but ahead.

Without U.S. power in being, the price for peace would be the freedom of the Free World.

CLIENT GAGGED, BUT THE GAGS ARE PRICELESS

Jnderstandably, a burial crypt advertiser was inflamed en someone levity-ed his dignified copy and millions newspaper readers read, encapsulated in the copy, such es as:

Crypts are enduring. Handsome. Dignified. Homey."

Crypts eliminate the mess of trudging through snow, slush, mud or rain. If you're in one you don't have to."

"Why stay alive when dying is so cheap."

"Ask about our family lay-away plan."

If the *National Lampoon* doesn't grab the culprit for an editorial position, then an alert advertising agency ought to unearth him for its creative division.

IT'S EASIER TO GRAB SUCCESS

than to hold on to it.

BLAMING DESTINY IS A POOR OUT

for those who don't reach desired destinations.

FALLACIOUS FORECASTERS

By M.S. Forbes Jr.

Econometric models—elaborate computer programs made up of hundreds of complex mathematical equations that purport to simulate the U.S. economy and provide truly reliable economic forecasts—are coming under increasing assault, as well they should. Customers, primarily large corporations and the federal government, pay econometric firms such as Data Resources, Wharton Econometric Forecasting and Chase Econometrics over $100 million a year for their computer-bred analyses.

It's a lucrative business. Data Resources was sold to communications conglomerate McGraw-Hill a couple of years ago for $100 million, 33 times earnings.

And what do buyers of these services get for their money?

The forecasting records of most models have been miserable. They predicted the recession in 1979 that never came. When it did arrive in 1980, most models were caught prophesying continued economic growth. They turned pessimistic as the recession ended.

Computers apparently make for no better forecasting than star-gazing or reading goat entrails.

It is no wonder. Most econometric models rely on historical information when concocting their mathematical formulas. But people's habits don't stay the same. For instance, Americans for years routinely saved 6% to 7% of their incomes. Their incomes stopped growing in 1979, and so economists figured the economy would get tanked. The reason it didn't: Thanks to inflation, consumers stepped up their spending and borrowing. The savings rate plummeted.

Economics is no hard science, despite pretensions of some practitioners. How does one quantify incentive, entrepreneurship, innovation?

It's perfectly understandable that economists with an entrepreneurial bent would try to cash in on their econometric models. Nor is it so surprising that the government, at least until recently, would be customers for such stuff.

What does lift the eyebrow is that supposedly hardheaded businessmen would shell out so much money for forecasts that turn out to be, in most instances, no more reliable than a newspaper horoscope.

SAVING EL SALVADOR

Secretary of State Alexander Haig made El Salvador a symbol of this Administration's determination to resist Soviet-backed guerrilla insurrections. Militarily, the policy has worked—so far.

But the Achilles' heel is that the Salvadoran government is undermining the economy even more than the fighting did. Although anticommunist, the government's economic programs are socialistic. Banks and export companies have been nationalized. So have the holdings of large landowners.

As FORBES' Washington Bureau Chief Jerry Flint put it in a first-rate story about that country *(Feb. 2)*: "The truth is El Salvador was near the take-off stage in development [before the fighting]. The Carter people failed to see a society changing to modern ways. They believed that the old rich still ruled with an iron hand, as in the story books. Social revolution to them was a kind of laxative. . . ."

Unfortunately, the situation is no better three months later. Here is how a respected consulting firm, Polyconomics, described El Salvador's much-ballyhooed land reform: "The peasants till the same plots, but the government dictates what they must plant. They are not permitted to sell their plots for 30 years. The government thus replaces the landowners. . . . The government switched much of the confiscated lands from production of coffee, sugar and cotton—the big earners of foreign exchange—to corn, rice and beans. The result is a colossal impoverishment of the economy. It costs more to grow the staples than to import them."

We would not be out of bounds to "suggest" to the government that it back off from its anti-free-enterprise kick, to stop running the economy further into the ground. Otherwise, that ground will prove fertile indeed for a future Marxist assault.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Five Years Not Too Long

The Japanese ascribe America's economic maladies to such factors as:

Overemphasis on short-term business profits. In essence, the Japanese blame Wall Street. Equity investors demand quarterly earnings increases. Directors compound the problem by tying management compensation to short-term profit performance. In Japan, where most capital comes from sympathetic bankers rather than stockholders, "waiting five years for a particular product to show a profit isn't uncommon," says management consultant Masaaki Imai.

—*Wall Street Journal*

Microchip Scimitars

Mr. Brezhnev would be less than Russian not to be eyeing the fabulous wealth below the desert to his south, if it is still defended only by a handful of bedouin warriors wielding microchip scimitars. Iran's self-immolation must have been one of the considerations that convinced Russia it could get away with burning Afghanistan. If bits of Iran and Pakistan—Azerbaijan, Kurdistan, Baluchistan—start to shake loose, they will be there for the taking.

—*The Economist*

Secret Weapon

In commenting on the government's plans to set up a mobile-missile system out West, Art Buchwald suggested a far cheaper and more efficient way of keeping the MX missiles' location secret from the Russians. Give the missiles to Amtrak and "all we have to do is give the Soviet Union a train schedule, and they'll never find them."

—*New York Times*

Friends of Chase

If I go to make a courtesy call on the king or crown prince of Saudi Arabia, we don't particularly discuss banking business. But everyone down the line knows I've seen them, so my ability to get things done is clearly advanced by the fact that I have been to see the king.

—David Rockefeller

Taken Literally

"Body by Fisher," describing a General Motors product, translated as "Corpse by Fisher" in Flemish, which did not help sales. Schweppes Tonic Water was advertised in Italy as "bathroom water." "Come Alive with Pepsi" almost appeared in the Chinese version of *Reader's Digest* as "Pepsi Brings Your Ancestors Back from the Grave."

When General Motors put out its Chevrolet Nova, apparently no one thought of foreign sales. Nova, when spoken as two words in Spanish, means "It doesn't go."—Representative Paul Simon (D–Ill.).

—"The Public Record," *Harpers*

Pay Out for Payoff

Private businesses receive rewards for their cost-cutting efforts. Employees of government agencies, however, receive no rewards. . . . When the fiscal year is over, employees of each [federal] agency should receive, on top of their current salary, a percentage of each dollar of the authorized budget that was not spent. . . . Hundreds of thousands of government employees possess special information no one else has about their particular bureaucratic function, and without doubt many have ideas on how to make their own operation more efficient. . . .

An overall federal government budget figure, say $700 billion, should be authorized for the coming fiscal year (and for succeeding years also). Then for each $1 billion that actual spending falls b this figure, each member of Con should receive $1,000 on top of his rent salary. . . . If the Congress granted pay increases related to spen cuts, I predict we'd see some remark consequences. . . .

I hope, for the sake of the econom well as my own tax burden, that t proposals are considered and adopte so, I hope that in four years, every m ber of Congress is a millionaire.

—Robert E. Kolson, Universi Chicago's Graduate School of Busi

DRAWING BY SAXON, ©1980 THE NEW YORKER MAGAZINE, INC.

"I'd like to know who told 'Forbes' I was a nervous bear."

An optimist builds castles the sky. A dreamer lives the A realist collects rent fr both of them.

—Springfield (Mass.) Republi

Outlawing Inflation

"We've solved every problem with islation," says [a member of the Bri Parliament]. "We've passed seven against inflation. We've eliminated justice numerous times. We've so the ecology problem. Every problem been solved countless times by leg tion. But the problems remain. Leg tion doesn't work."

—Alvin Toffler, *The Third W*

For Crying Out Loud

To me, opera is where you get stab and instead of bleeding you sing.

—Joey Ad

What and Who of Ulcers

Pressure upon the mind in term anxiety affects our digestion and give ulcers. . . . Insults in the office bec poisons in the body. I think that hur ation as well as pressure of anxiet most likely to lead to the disorder. tycoon, however hard he works, is liable to suffer than his subordinate do not get ulcers," one of them rece declared. "I give them."

—John Stewart Co *Living with a Stra*

Corporate Glossary

Chairman of the Board: The hig corporate position. Involves sitting big desk, shooting in the low 90s, wo ing about kidnappings, wearing suits, and placing blame.

Sales Manager: A well-dressed sa man who doesn't sell anything.

Director of Planning: A Ph.D. makes his mistakes a decade in advar

—*National Lamp*

IS THE AMERICAN ENTREPRENEUR AN ENDANGERED SPECIES?
One of our national assets is in danger of extinction.
The entrepreneurial spirit of America itself.
Too many people believe business is best when business is shackled. And the very people who should defend free enterprise too often remain silent.
America today needs more people to stand up and speak out—whenever and wherever free enterprise is threatened.
After all, free enterprise, like freedom itself, never comes free.
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Reliance Group

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Or write our headquarters:
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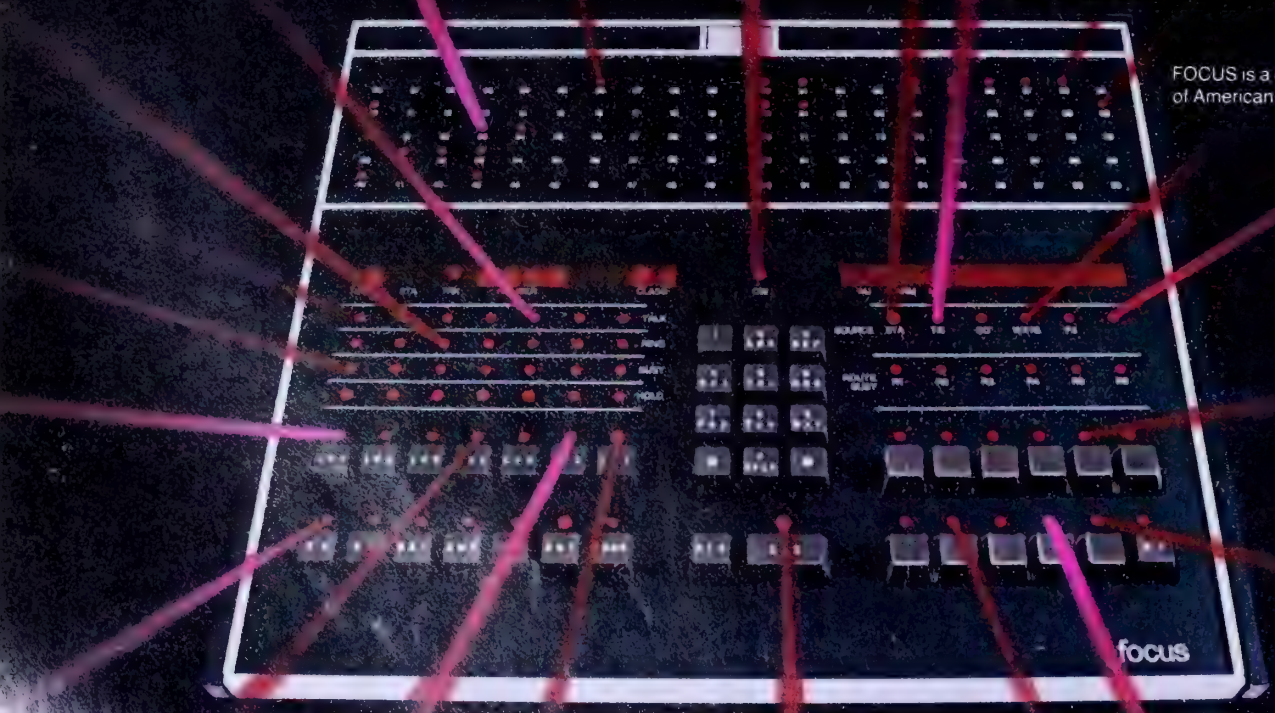


FOCUS is a registered tradem of American Telecom, Inc.

REAGAN WILL GET HIS TAX CUTS

PLAN ON HIGHER TAKE-HOME PAY AND A SMALLER TAX BITE out of business profits in 1981 and 1982. The prospects are excellent that President Reagan is going to get from Congress most, perhaps just about all, that he has asked for in the way of personal and business tax cuts.

The White House thinks it can't miss on the cuts and that its opponents, down deep, believe it, too

THERE IS MORE THAN BLUSTER BEHIND the President's hanging tough on a three-year deal. The Administration's willingness to quarrel publicly with congressional opponents contrasts sharply with the style of White House predecessors in both parties. The White House thinks it can't miss on the tax-cut issue and believes its opponents, down deep, believe it, too. Hence, the easy access to key spokesmen for television and print interviews and their availability for speeches in the boondocks.

If Reagan must give ground, he won't have to give much. The controversial Kemp-Roth personal tax-cut proposal, which would reduce the marginal tax rate for individuals by 10% a year for each of three years starting July 1, 1981, will probably be toned down, but only slightly. Compromise, if needed for quick passage, is likely to take the shape of a first-year tax cut of 8% on personal income effective July 1, with a firm pledge in the legislation to consider tax cuts of 10% a year in each of the following two years. In 1982, with the entire House and almost one-third of the Senate up for election, their consideration is likely to be favorable.

If the Kemp-Roth proposal passes intact, starting in mid-1981, it will reduce income tax rates 5% for calendar 1981, 15% for calendar 1982, 25% for 1983 and 30% in 1984. A family with $10,000 of taxable income would pay $130 less. A family with $100,000 of taxable income would pick up a $3,800 reduction. The top marginal rate for taxpayers would be 50%.

It doesn't take much easing of their tax burden to get people to work longer

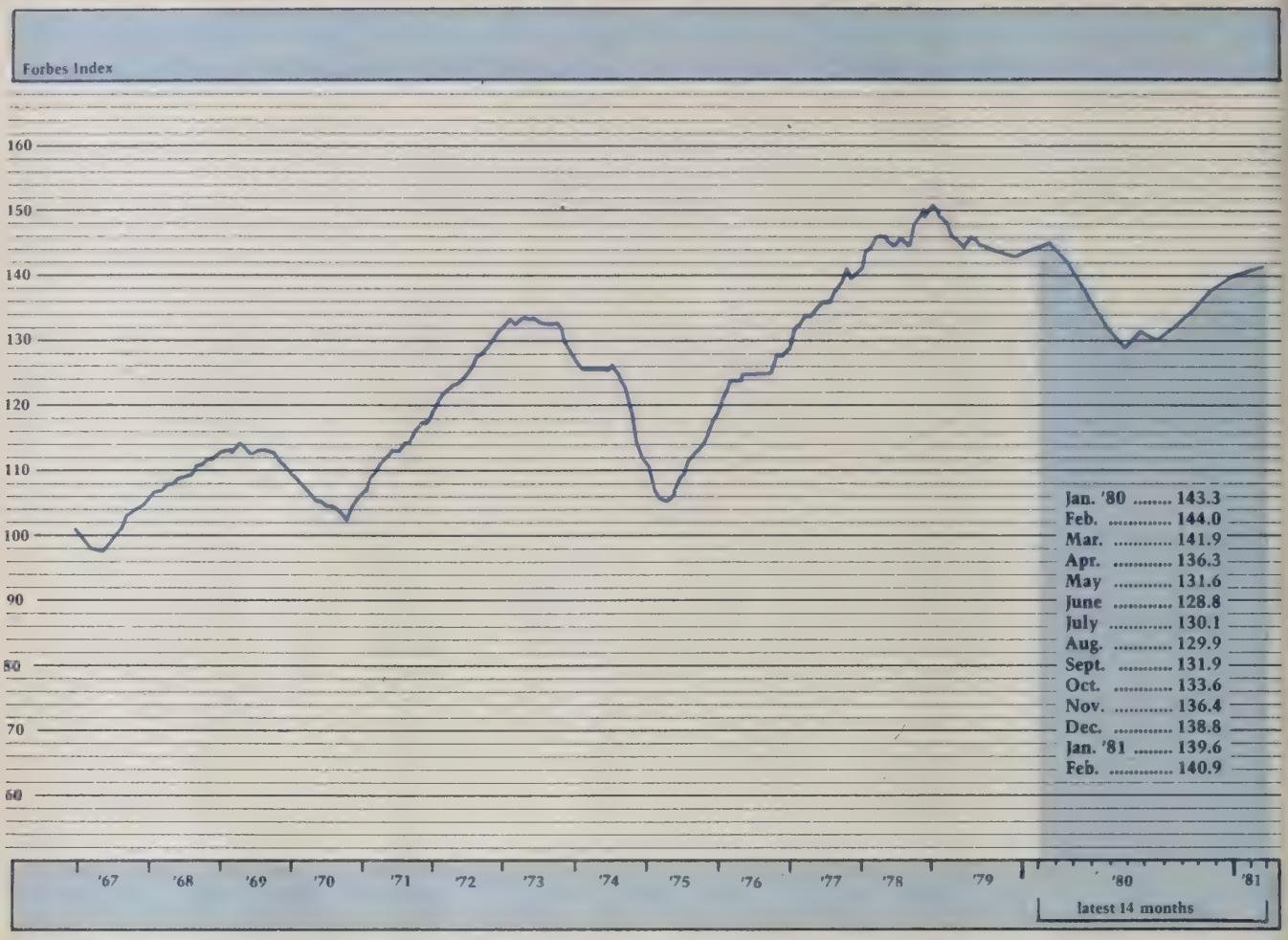
IT'S ALL TOO EASY FOR CONVENTIONAL ECONOMIC FORECASTERS to underestimate the economic impact of tax cuts of this size. It doesn't take much easing of their tax burden to encourage people to work longer. With civilian employment at the current level of 100 million persons, those few hours can add up to big increases in GNP. Bring overtime up from the current 3-hour weekly average to 3.5 hours—the 1977 and 1978 averages—and GNP rises $42 billion. Cut absenteeism by 0.5%, and GNP picks up $10 billion.

The Administration's spending-cut proposals—which must accompany the tax cuts if huge, inflationary deficits are to be avoided—are in good shape, too. Some program reductions are going through—milk price supports were eliminated—that would not have been given much chance a year ago.

The stock market will get a powerful shot in the arm

THE STOCK MARKET WILL GET A POWERFUL SHOT IN THE ARM from the changes in the tax rates, particularly because of the significant reduction of long-term capital gains rates now in view. For someone with $100,000 of taxable income, the marginal rate on additional capital gains would drop from 24% to only 17%. There is considerable sentiment in Congress to go a step further and reduce the portion of any capital gain to be counted as income from the present 40% to 30%. If that were to happen, the tax on long-term profits would be 13%—almost no bite at all by modern standards. This would, of course, take a good deal of steam out of the market for real estate and oil drilling shelters. Instead money will be put to work directly in plant and equipment via purchase of conventional bonds and stocks.

The Forbes Index



The Forbes Index Components

Credit where credit is due. The economy is still moving ahead, largely because of a borrowing surge. During the most recent reporting period, consumer installment debt increased by nearly $2 billion, while payments edged up a mere $600 million. That additional buying power keeps the Forbes Index moving, though it is hardly an encouraging reason for the indicator to rise.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

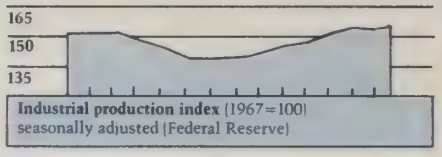
Total retail sales

New housing starts

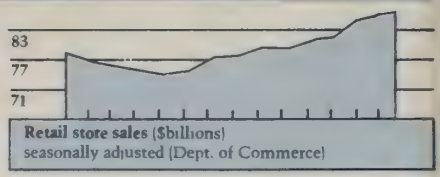
Personal income

The change in the amount of consumer installment debt outstanding

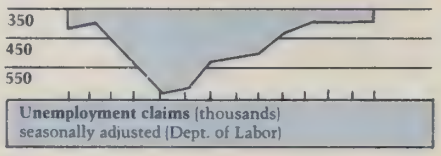
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



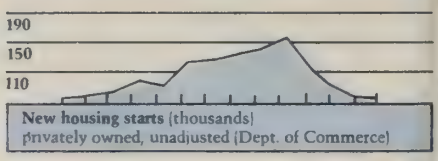
Industrial production index (1967=100) seasonally adjusted (Federal Reserve)



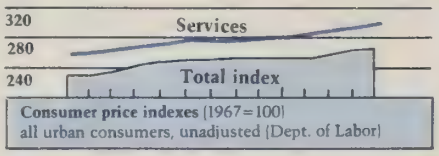
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



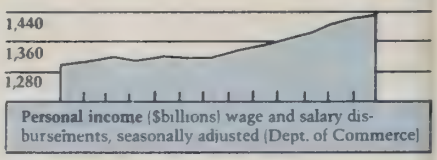
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)



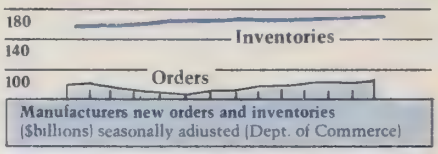
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



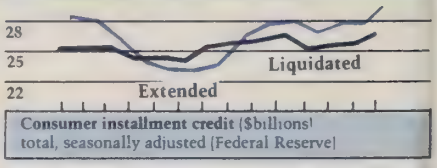
Consumer price indexes (1967=100) all urban consumers, unadjusted (Dept. of Labor)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Manufacturers new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

The Mercedes-Benz 240 D: the $20,000* car that puts you not in the lap of luxury but in the hands of science.

Luxury trappings can't cut running costs or prolong car life or make driving safer. Technology can—as witness that 1½-ton mobile efficiency system, the 240 D.

The Mercedes-Benz 240 D is far more than the only $20,000* sedan to be rated at 29 EPA estimated mpg and 33 estimated highway mpg.† It is a moving network of science and technology, pursuing not only high fuel mileage but efficiency in every sense of the word.

For example, the 240 D's zero-excess four-cylinder diesel engine is meant to run efficiently at 5,000 feet above sea level or at five. Mercedes-Benz science gave it a *built-in, barometric brain,* to adjust the fuel/air mixture to the altitude.

The engineers gave the 240 D a floor-mounted four-speed manual transmission, so efficiently designed that *Motor Trend* calls it "probably the smoothest stick shift in the world."

Efficient handling

To the engineers of Mercedes-Benz, sloppy steering is inefficient. Spongy brakes are inefficient. A car that wallows and heaves over bumps and through curves is inefficient. Thus, the 240 D equips you with taut steering and fade-resistant four-wheel disc brakes and a fully independent suspension system meant to *cling* to the road surface, even when the road surface is poor.

The 240 D cradles five people and 12.57 cubic feet of luggage space within a package much less bulky than even today's downsized luxury diesels.

The goal of driver efficiency governs the design and layout of the interior. The seats feel more like chairs than pillows, for instance—bolstering your body with five separate layers of padding over steel springs.

The $6,000 surprise

It is worth noting that this model of engineering intelligence is priced $6,000 lower than any other Mercedes-Benz sold in America.

Air conditioning and electric window lifts are available, at extra cost. So is an efficient automatic transmission with not three but four speeds.

Recent figures show that Mercedes-Benz sedans, the 240 D included, have kept about *80 percent* of their original value at retail after the first three years.

Integrated into this mobile efficiency system are 120 safety features. The 240 D's body and chassis are not separate elements held together by nuts and bolts, but a single unit, precision-welded at several thousand points.

The efficiency of experience

If the 240 D seems a remarkably efficient example of diesel automobile engineering, it should be no surprise. Mercedes-Benz pioneered the production diesel automobile 45 years ago. Experience tends to show.

*Approximate suggested advertised delivered price at port of entry.

†EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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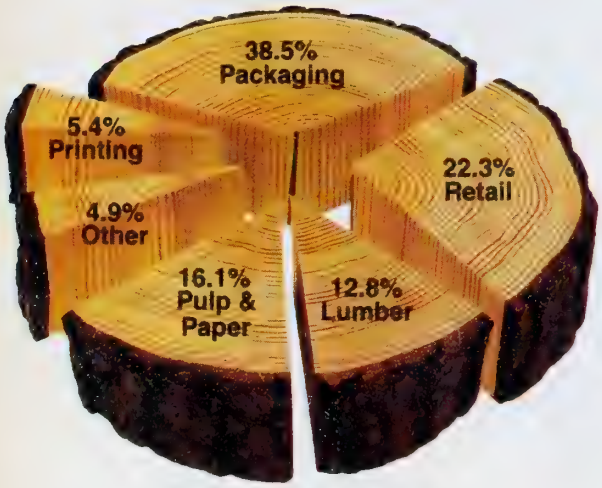

segments. Lumber. Retail. Packaging. Pulp and Paper. Specialty Printing. Matches/Woodenware/ Machinery. We're in all key states and part of Canada. Overseas we manufacture or market in the U.K., West Germany, France, Italy and Sweden.

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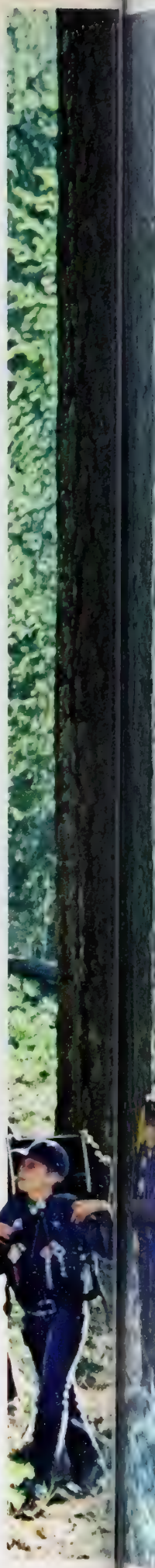
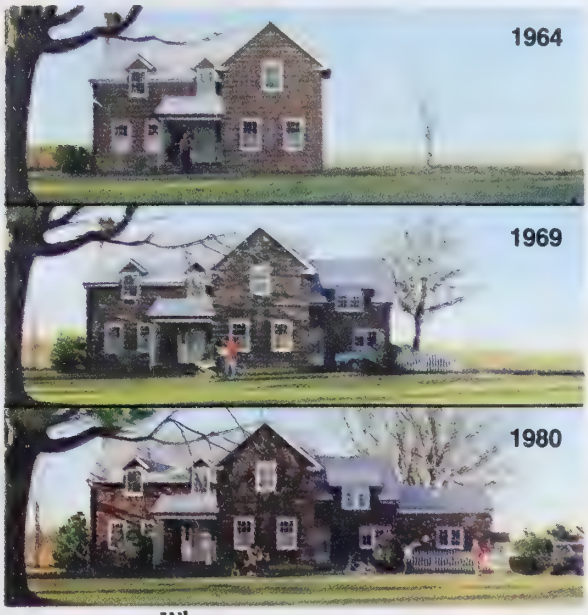
Over 70% of our products begin as trees. More than 1.6 million acres of timberlands in the Northeast and West. It's our richest, most rewarding resource. Trees also are renewable, so we don't ever expect to run out or run



Tree companies don't."

William J. Koslo, Chairman & President, Diamond International



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n boardrooms across the land, businessmen re toasting William Baxter, Reagan's new ntitrust chief. What will they think of him ur years from now?

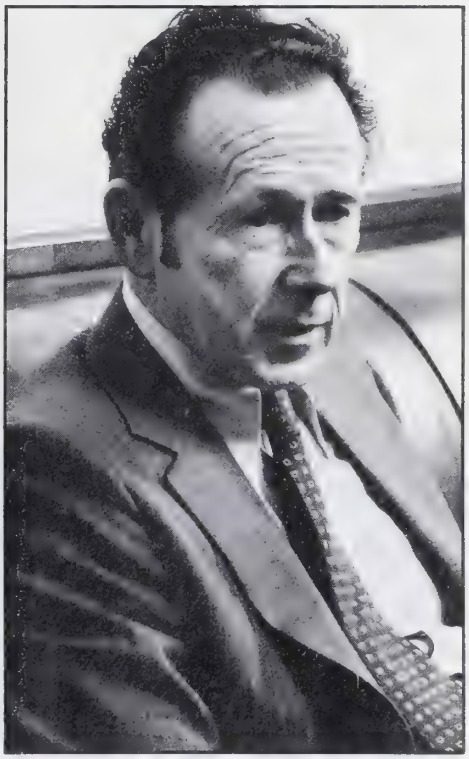
Actions speak louder than words

By Beth Brophy

THERE'S A FUNNY THING about the men who head the Justice Department's antitrust division. They often take office proclaiming one specific of policies and then do the opposite. Consider the late Richard McLaren, a rporate attorney from Chicago who ved under Richard Nixon. He filed dmark suits against International ephone & Telegraph that led to its estiture of Avis, Canteen and Levitt. en there was John Shenefield, Jimmy rter's appointee. Despite some initial ister, he launched no significant anti-st offensive, concentrating instead on eamlining AT&T and other cases al-dy under way.

That's why businessmen shouldn't be quick to relax when they hear Wil-m Baxter. He's Ronald Reagan's chief stbuster and a man who seems re-shingly benevolent. Oil companies ying into mining? An efficient infu-n of new capital by technologically ated enterprises, says the 51-year-old ter. Conglomerate mergers? "Pre-us administrations had the notion y were bad not because they impaired intensity of competition in particular ducts or service markets, but because y resulted in very large companies."

Baxter's background is equally comfort-. For the past 20 years he has taught itrust and regulated industries law at nford, where he earned a reputation for conservative approach to antitrust, luding the belief that many business ctices thought to be anti-competitive ually increase efficiency and competi-n. Along the way, he served as a consul-t to such clients as Levi Strauss and the



Chief government trustbuster William Baxter
"Jail is an enormous deterrent."

American Petroleum Institute. Now, however, Baxter wants to strip the Federal Trade Commission of its antitrust jurisdiction. Congress itself got so fed up last year with the FTC's antibusiness policies that it created a legislative veto over the agency's rulings.

Baxter also shares the growing concern that antitrust laws need to be bent to allow U.S. companies to compete more effectively abroad. Some joint ventures, he admits, do carry anticompetitive potential, and should be stopped. But he wants businessmen to know where they stand. "I would attempt to bring about a situation where businessmen have greater clarity as to the permissibility of using joint ventures in a variety of circumstances," he explains. "One important circumstance is joint ventures to achieve economies of scale and minimization of transaction costs in exporting." But Baxter's not talking about sharing factories, he's talking about sharing information. "Obviously, sharing reaches a point of corporate intimacy where it is indistinguishable from merger." He thinks guidelines, speeches and new laws will help clear up current ambiguities in this area.

All this, of course, isn't to imply that Baxter won't make waves. He says cartel-like behavior is his top priority. By this he means producers with a substantial market share conspiring to control the rate of production and prices. "It occurs among dry-cleaning establishments in small towns and it occurs among the manufacturers of heavy electrical equipment—and it should be stopped," he says.

To accomplish that, Baxter advocates tougher criminal penalties, such as jail sentences, for business executives who meet clandestinely to fix prices. "I think the prospect of going to jail, even for a very short period of time, is an enormous deterrent," he explains. Baxter isn't yet naming any of the particular industries he suspects. But the department is currently investigating road-building companies in several states. Baxter also recently pledged to keep a close eye on the railroad and shipping industries.

Still, price-fixing is garden variety antitrust. It lacks the political impact of big-time litigation. "In general, I would go after mergers of substantial size which we can prove are likely to have adverse horizontal effects on identifiable markets," Baxter explains. "By that I mean mergers likely to change industry structure in a way that would reduce output and increase prices." When does that happen? As soon, says Baxter, as the number of competitors is small enough so that cartelization through disguised agreement is a realistic possibility.

That sounds suspiciously like "shared monopoly," the domination of markets by a few large firms that was the bogeyman of the Carter Administration. "Occasionally in a highly concentrated industry, companies will exchange data, and there are circumstances where such behavior would amount to agreement in restraint of trade," says Baxter. "I would

not hesitate to bring those cases. The line between a pure shared monopoly and a conspiracy becomes very, very thin. In disavowing a shared monopoly theory, I do not want to disavow any cases appropriately brought on the basis of agreements—whether proved directly or by circumstantial evidence."

Cut through the law professor's mumbo jumbo, and that hardly sounds like a little stick. Baxter clearly doesn't think big equals bad, and believes many a merger is made in heaven, but just as clearly he's not going to sit by nodding where he sees signs of genuinely anticompetitive practices. Watch out, then, about what goes on in those smoke-filled rooms at the trade associations and in convention committee meetings.

So far, of course, the press has trayed William Baxter as more pus than tough cop. That may well turn to be another oversimplification. A Justice Department's Antitrust Div more than any other government you judge a man by his actions and by his words. ■

According to President Coy Eklund, Equitable Life is riding high than ever. Another set of numbers, however, tells a different story.

Through a glass rosily

By Stanley Ginsberg

"WE JUST FINISHED the best year in the Equitable's history," declares Coy Eklund, 65, president and chief executive of the nation's third-largest life insurance company.

That may be so if you're willing to go by dollar figures. But compared with its peer companies in the top ten, 122-year-old Equitable ranks at or near the bottom of the heap by most broadly accepted industry yardsticks. Last year, for example, when the top ten (Equitable included) averaged a 2.8% gain in life premiums, Eklund's company was down 11%. While insurance issued in 1980 jumped by better than 15% overall, the Equitable's dropped by 2.5%. While the top ten's net gain after taxes went up by an average of 19.5%, the Equitable's gain was a microscopic 0.1% return on its $34.6 billion in assets—a decline of 57%.

When confronted with these unpleasant realities, all gleaned from the voluminous and comprehensive "convention blanks"—annual statements that all insurance companies must file with state insurance departments—Eklund grows agitated. "We're not underperforming the industry," he snorts. "We're setting a strong pace for the industry financially. A gain in life premiums is almost irrelevant as a gauge of performance. Sure, our insurance issued last year was almost unchanged, but that followed a year in which we had a 41% gain." He neatly sidesteps the question of net gain. Instead, he reaches for a company booklet entitled *1980 Results*, which compares Equitable's past and present performance with little regard for what the rest of the industry is doing.

There is a reason Eklund prefers not to dwell on the convention blank numbers. As one analyst explains it: While they show peer companies like Prudential forging ahead with aggressive marketing and expansion, the Equitable se mired in indecision.

Take Eklund's recent announcen of his company's retreat from the i vidual property-casualty business. O nally purchased in 1974, the Hou General group was to provide the Equ ble's sales force with a new marke tool to bolster the sagging whole life surance business. "Property-casual

Equitable Life President Coy Eklund
"Our problem was that we were getting no enjoyment."

at is, personal homeowners and auto-
bile insurance—being easier to sell
an life insurance, possibly could enable
to develop more successful agents,"
/s Eklund. A reasonable expectation,
pecially since aggressive industry-wide
ce-cutting and the general shift to
v-cost (and generally low-commission)
m insurance has been squeezing
nts' incomes.

Unfortunately, that did not happen.
e property-casualty subsidiary was
d off in 1980 to Tokio Fire & Marine.
e other is currently on the block. How
me? "Professional life insurance peo-
," says Eklund, speaking of a profes-
n whose emphasis on aggressive sell-
at all hours of the day or night is
endary, "simply don't want to get in-
lved in a business that bothers them
er the weekend with telephone calls
porting wrinkled fenders."

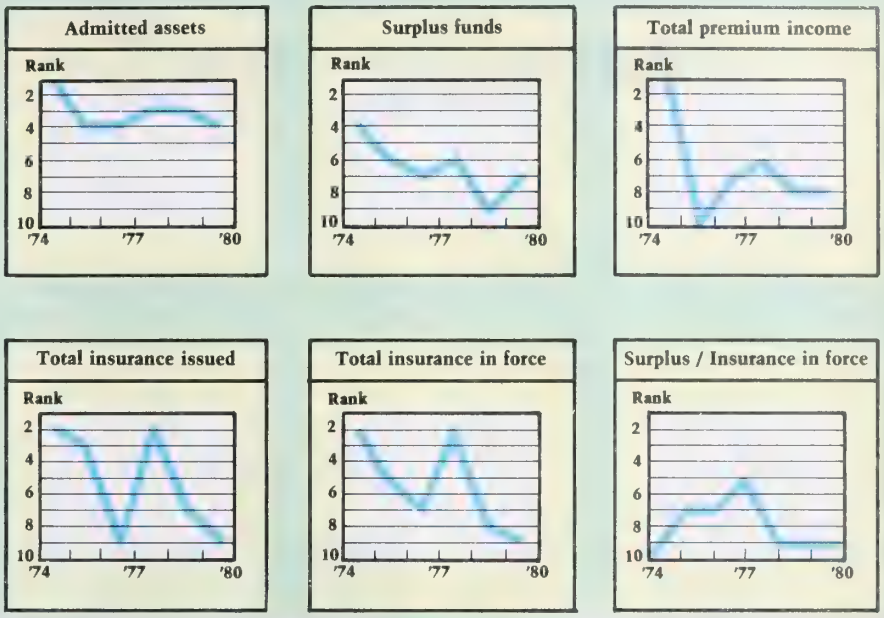
Property-casualty is a cyclical busi-
ss, and the Equitable stayed in for one
-year underwriting cycle. "It was a
d cycle," he observes. But for whom?
a good showing, underwriting payout
l expenses are less than premium in-
me. This is known as the combined
io and the lower it is the better.
hereas such major insurers as State
m and Allstate came up with com-
ed ratios that averaged 91.5% and
1.5% respectively for 1975 through
79, the best the Equitable could do was
3%. "Combined ratios?" Eklund re-
ts. "That is of no interest to me. I'm not
it interested in whether it was profit-
e. Our problem is that we were getting
enjoyment from the operation."

Nor is he getting much enjoyment
m accident and health insurance, a
e that accounted for nearly 40% of last
ar's $3.2 billion in premium income.
roup lines," says Eklund, reading from
80 Results, "lost us $9 million, princi-
ly because of a $250 million overrun
expenses, but also because of a heavy
rease in the number and size of
ims." But that is for all group lines,
just accident and health. Group life
l annuities generated over $20 million
profits after taxes and dividends.
at's good. But accident and health
ck the Equitable for $36 million. Ac-
ding to the convention blank, claims
ments went up 3%. Expenses, mean-
ile, jumped to over 20% of premiums.
at about that?

Wait," Eklund protests. "I'll give you
numbers in a minute. I'll take you
nt through here." He leafs through the
ults book. "Pension business gave us a
n of $49 million in surplus," he in-
es, quickly changing the subject.
ver here is our growth in surplus over
last 20 years. We feel so good about
success of the Equitable financially."
ver mind that Equitable consistently
ks near the bottom of the industry on
wth of surplus. Or that its ratio of

Nothing to cheer about

Ranked by percentage change in statutory results reported by the top ten life companies, both stock and mutual, in six key areas, the Equitable gives Coy Eklund little to smile about. In spite of better-than-average asset growth, the company's performance in premium growth, insurance issued during the year and total insurance in force is at the bottom of the pack. More important, growth of surplus funds (the equivalent of retained earnings) and the ratio of surplus to insurance in force—indicators of a company's financial strength—have been going steadily down.



surplus to insurance in force—the real measure of a company's strength—is the lowest among the Equitable's peer mutual companies. Accident and health has slipped from the conversation.

Clearly, Eklund would much rather talk about ordinary life insurance, the line responsible for 39% of last year's revenues, but 88% of its pretax operating profits. "Look at this," he says, pointing to a chart in *1980 Results*. "The Equitable now ranks number one on competitive cost on a life insurance policy for $100,000. Don't you think we feel pretty good about that? That's the bulk of our business." The policy of which he is so proud is a standard risk policy—30% of the Equitable's life insurance business. Its other policies don't stand up so well. According to the annual policy rankings appearing in *Best's Review*, the Bible of the business, Equitable's preferred risk whole life $100,000—which the company submitted to *Best's* as its prototype policy—ranked 38th in interest-adjusted payment cost, while its $25,000 whole life and paid-up-at-65 policies all ranked in the 70s.

No surprise, then, that the Equitable's lapse ratio—the percentage of insurance in force that terminated before the insured's death—is growing faster than any other comparable company. Last year, the Equitable's hard-pressed sales force had to sell 311,000 new policies just to stay even with the preceding year.

So what are Eklund's major accomplishments? "In 1978," he replies, "we really took the bull by the horns and did some good things here, the staff reduction to cut expenses, and the disposition of $533 million in common stocks."

Eklund's "outplacement," which received a lot of publicity at the time, eliminated a total of 545 jobs from the Equitable's total staff of 15,000—that's just under 4% out of his declared target of 10%. Besides several lawsuits, the move reportedly created serious morale problems. Eklund replies: "I'm sure that anyone who lost his job had a serious morale problem. You bet."

And the common stock selloff? "Common stocks," he explains, "provide a very attractive long-term capital appreciation possibility, but at the expense of year-in, year-out annual yields that enable us to pay out the dividends that our policyholders expect and require." His answer was to put the $533 million proceeds into publicly traded bonds, which bumped their share of the Equitable's total portfolio from 40.7% to 42.3%. Last year, the Equitable realized a $58 million loss on bonds. The year before, it lost $29 million. During the same period, S&P's 500 rose 40%.

There's a good deal of smart sentiment that says bonds will outperform stocks in the next year or so, and if they do, Eklund's recent switch will look good. His record, however, isn't reassuring. ■

The problems at Playboy's London casinos are far more critical than is generally realized. They could spell the end of the bunny empire.

Is Playboy's luck running out?

By Maurice Barnfather

On Feb. 20, London police took certain documents from two casinos owned by $363 million (sales) Playboy Enterprises. None of the gaming rooms at the Playboy Club of London and the nearby Clermont Club were actually entered, so the gamblers went undisturbed. The casinos that chipped in $31.2 million to Playboy Enterprises' earnings last year—more than twice what the magazine itself contributed—carried on business as usual.

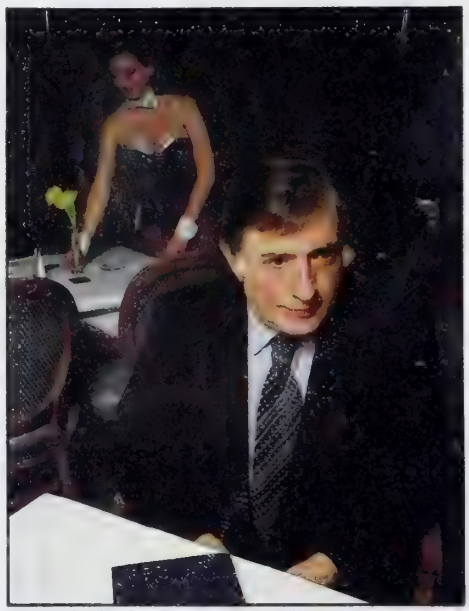
Later that month, when the documents were returned, Playboy's Chicago headquarters, some 4,000 miles away, dismissed the incident as a little local difficulty, now happily resolved.

That complacency was rudely shattered on Apr. 10 when London police and the British Gaming Board announced they both would oppose renewal in May of Playboy's gaming licenses for its three London casinos, including the Victoria Sporting Club, and the two casinos in Manchester and Portsmouth as well. Breaches of the Gaming Act, such as providing illegal credit to heavy gamblers, were cited. Worse, London's Serious Crime Squad is concerned with reported allegations of organized prostitution at the casino. It has not been established that Playboy knew of these alleged activities. Bluntly, Playboy's entire gambling operation, including the newly opened Atlantic City complex, is in jeopardy. That means the whole Playboy empire. For without the casinos Playboy is left with clubs and hotels that lost $5 million last year, and an aging magazine.

A desperate Derick Daniels, Playboy president and chief operating officer, flew to London immediately after the license objections became known. On Apr. 15, after his own on-the-spot assessment, he fired Victor Lownes, chairman, managing director and chief architect of the phenomenally successful casinos, and his deputy, William Gerhauser.

"Senior management of Playboy in England has lost the confidence of the two regulatory authorities in the gaming industry," stated Daniels. "Playboy recognizes as a matter of *immediate and overriding necessity* [our italics] that the confidence must be restored."

He's not kidding. If Playboy loses the London casinos, that would cast a shadow over its future hope, the $135 million Playboy hotel and casino in Atlantic City. Consider this. In March, one month after the London police seizure of documents, G. Michael Brown, director of the New Jersey Division of Gaming Enforcement, sped to London to discover what was up. So grave were the allegations against Playboy that Brown demanded the resignation from the Atlantic City Casino of Lownes and three other executives: Gerhauser, Bernard Mulhern and Christopher Raphael. Only after their departure from the American operations did the Atlantic City club get a temporary license to open in mid-April. Should Playboy fail to get a manent license in Atlantic City, it m sell to its partner at an undisclosed, certainly low, price. That partner, El ore, controlled by hotel chain Hyatt ternational, which is run by Chica Pritzkers, would have little diffic finding the money. Says Guy Mich the Gaming Enforcement agency's de ty director, "The problem the comp is having in England is of serious c cern to us."



Ousted Playboy casino head Victor Lownes ***"They've done a stupid thing."***

What, in fact, has Playboy been d in London? Why is it so serious, what are the chances of losing those credibly valuable casino licenses? " major part of the objection to our lic involves the provision of credit," plains Lownes. "The minor part is m up of canards and rumors. You don't tinguish a license for that any more t you give the death penalty for spittin the sidewalk."

He's wrong. All the London gan clubs closed in recent years alleg committed credit offenses. Exten credit—say, by not cashing a gamb check—is an offense. This rule was troduced to avoid sucking people gambling sums they do not have. W the police checked Playboy's books are said to have found undisclosed l of credit to over 30 people worth s $8.5 million. Then there's the 48-h rule. This, too, is at the core of Bri gaming regulations. It's there to pre people literally walking in off the st joining the club and gambling. It als designed to discourage junkets. The says that when you join you must si form signifying your intention to gan 48 hours before you do so. Thereafter can gamble whenever you wish. Playboy found a loophole. Guest members can gamble immediately Playboy, it is alleged, enrolled porte London's leading hotels as memb who then brought in overseas gamb as "guests."

Potentially the most serious prob is the alleged availability of girls at P boy's casinos. That's organized pros tion. If proved, it would lead to crim charges. "There are no crim charges," Lownes insists. Howe Forbes has learned that the Ser Crimes Squad is taking a close intere the investigation by the London C Squad and the Gaming Board.

Whenever the Gaming Board and police combined to object to license newal in the past, they have invari succeeded. For instance, the Coral sure Group, former owner of Lond Curzon House Club and other West casinos, lost three casino license 1980 after a police raid and objection the authorities.

How did Playboy get itself in mess? The answer lies with Vic Low Now 53, but still swinging, he has kn

yboy founder and 70%-stockholder gh M. Hefner since 1954. Legend has hat Hefner fashioned the image of yboy man after Lownes' own lifestyle. his 26 years with Playboy, 18 have n in England where he has the obliga- y Rolls-Royce and a Hertfordshire ntry mansion called "Stocks." There indulges himself and about everyone in London society who will come, h lavish parties.

ut overconfidence led Lownes to ke two errors that in retrospect ght prove devastating to Playboy. t, he was instrumental in bringing vn the casino empire of Cyril Stein's billion (sales) Ladbroke hotel and ing group. As the story goes, not y did Playboy supply information to police about Ladbroke's illegal ac- ties—for example, spending over $1 lion soliciting business—but Lownes joined in objecting to renewal of n's casino licenses for the Hertford, Hyde Park Casino and the Lad- ke Club. Ladbroke lost all of them. m that moment on, Ladbroke began ging up and supplying information about Playboy to the authorities.

But perhaps Lownes' biggest blunder was buying the Victoria Sporting Club. Under previous owner Cyril Levane's Norwich Enterprises, the Edgware Road premises of the VSC were raided by 200 police in December 1978. They uncovered evidence of massive skimming involving at least $4 million from the blackjack tables alone. Naturally, Levane had to sell out and, in August 1979, Lownes paid $13 million for the VSC, two provincial casinos and around 60 betting shops owned by Norwich Enterprises. Trouble was, the police and the Gaming Board oppose transfer of gaming licenses. They object to unacceptable people like Levane profiting from being able to sell a casino as a going concern. Lownes challenged this in court, claiming that since he was a "fit and proper person" to run his own casinos, he should retain the VSC license. He won his point. Lownes wired Hefner at his Beverly Hills mansion: "Victoria, victorious, value verified, vision vindicated, verily, Victor."

But it was because of this action that disillusionment with Playboy set in at the Gaming Board. Lownes discovered that people in glass houses should not throw stones.

Will removing Victor and his deputy from the gaming operation save the Playboy licenses? Obviously Derick Daniels hopes so. But the odds are against him. Look at Ladbroke. It, too, argued that its licenses should be restored because its casinos were no longer run by those who allowed the breaches of the Gaming Act. Ladbroke lost that argument.

Of course, Lownes is insistent that he should not have been sacked. "I think they've done a very stupid and bizarre thing," he says. "With my reputation for walking the straight and narrow at all times, I know that I would have brought the company through."

Nor does Lownes have a high opinion of his replacements or of Daniels, the 52-year-old former vice president of Knight-Ridder Newspapers who joined Playboy in 1976. "They're a bunch of rumdums," says Lownes, sounding tired and emotional. "We will sort this out," says Derick Daniels. "But it will take time." And time is not on Playboy's side. ■

More London connections

Playboy Inc.'s London casinos are not the only operations feeling official heat in Britain lately. Amusement arcades, too, have come under scrutiny. That might eem small-time stuff. But with the arrest in late March of ne Martin Bromley, né Martin Jerome Bromberg, a 61-ear-old native New Yorker with ties to pinball and video ame interests in Chicago, the implications are far from mall and they reach across the Atlantic.

Bromley and five other men who control numerous lucra- ive arcades in London were ar- ested in a raid on their busi- nesses and homes by 100 Brit- sh customs officers on Mar. 25. Bromley and a key associate, Richard Davant Stewart, were pprehended at Heathrow Air- port en route for Zurich. To- ether they were carrying 147,000 cash. After the arrests, n tax-evasion charges, customs fficers took over the running of heir London arcades. There are ndications that slot machine ake may have been underre- ported on a scale reaching mil- ions of pounds per year. Brom- ey and friends' bail was set at early £1 million.

Martin Bromley
The implications are far from small.

Bromley, as it happens, also ontrols half the voting stock of little Stern Electronics, a our-year-old Chicago concern that is the fastest-growing inball and video game manufacturer in the U.S. Last year it nade $3 million profit on sales of $38 million. This year it xpects sales of $100 million on which it could earn $10 million.

It is tempting to believe that Gary Stern, 35, a Chicago awyer and entrepreneur., has built Stern Electronics into a 100 million business by hard work and knowhow. After all, it was Stern who, a few months after leaving Seeburg Corp. in 1976, spotted bankrupt coin-machine manufacturer Chicago Dynamic Industries (CDI), seeing "somebody else's misfortune as our fortune." In anybody else's eyes, CDI was worthless. It had an ancient factory on Chicago's North Side, outdated pinball machines for inventory and was $2.7 million in debt. With a $2.7 million loan from the Drovers Bank plus another $500,000 in working capital—40% from the Stern family, 30% from Chicago friends and the final 30% from a group headed by a Stern family friend named Martin Bromley—Stern bought CDI. The very first game Stern Electronics launched, called "Pinball," was a runaway success. In three months Stern sold 2,300 games at $1,200 each. Sam Stern, Gary's father and a 50-year veteran of the pinball industry, made the initial sales calls to wholesale distributors, many of whom had known him for years. After one year in business, Stern Electronics' sales were $4.8 million, which included $650,000 for the dated CDI pinball inventory bought by distributors at Sam's prodding.

With hindsight Stern wishes he'd gotten his backing another way. After all, Bromley's arrest in March is not the first time he has had problems. Bromley's international coin-machine firm, Sega (for Service Games), since sold to Gulf & Western, allegedly had some difficulties when operating slot machines in U.S. armed forces bases overseas. As for Stern, he's determined to protect what he's got. Says Stern: "Now, if it's necessary for me personally to buy Bromley out, I'll do it, come hell or high water."—M.B.

Caterpillar is a hot stock again. But that doesn't overly excite Chairman Lee Morgan. He would just as soon take time out to hear criticism from a retired employee.

Playing Peoria—to perfection

By Paul Gibson with Barbara Rudolph

LEE MORGAN, chairman of Caterpillar Tractor, has had an unexpected interruption in his tight schedule. Never mind afternoon flights from Peoria to New York and back. A retired employee, who years ago walked to work with Morgan, wants a word with the company's boss. Ushered directly into Morgan's cavernous office, the visitor explains his problem.

His son is a Caterpillar employee who hauls parts between two local plants. A new supervisor has raised his daily trip quota from six to seven. The only way to meet this new schedule is to exceed the speed limit and risk an accident. As the old man voices his concern both for his son's safety and for Caterpillar's reputation, Morgan promises to investigate. Both men know he will keep his word.

That's Caterpillar in a nutshell. A market leader with revenues that will approach $9.5 billion this year, it balances carefully its concern about productivity with a sensitivity for employee morale and corporate reputation. Old-fashi and out of style, perhaps, but the pany genuinely believes in inte open doors and small-town loyalty. an inbred, promote-from-within or zation where executives and wo alike often walked to their first jobs one of the many small farming com nities that surround Peoria. They climb the ladder by keeping their clean and working hard—almost no leaves. Last year, for example, mar ment easily transferred 20,000 pe almost a quarter of the work forc help adjust to the recession. A rem able accomplishment, especially bec Caterpillar's hourly workers belon the United Auto Workers union.

Recently, however, Caterpillar generated some uncharacteristic zi Wall Street. Since mid-winter its price has increased by nearly 25% 69½, a new high. That's a $1.2 bi gain in market value, an incredibl crease considering that at year-end already ranked 35th on the FORBES (see p. 246). Much of the gain cam cause of strong earnings in the final ter of 1980 and in the first quarter o year. For the three months endi March Caterpillar posted profit $142.4 million—no record but b than many analysts' estimates.

Investors, of course, are excite cause CAT seems to be climbing o

Caterpillar Tractor Co. Chairman Lee Morgan

Building huge earth-moving machines involves a lengthy product planning cycle. But Caterpillar achieves its ren able growth because it refuses to yield to short-term economic swings.

he concept of excellence is nothing ew to Jaguar. And because this eries III Jaguar is the finest—and the trongest we have ever built, Jaguar as extended its basic 12 month limited arranty on 1981 models to cover the pow- r train for a full two years or 50,000 iles, whichever comes first. This is n uncommon warranty. But then, the eries III is an uncommon motorcar.

Here is a car that is inspected con- nuously during its assembly. Once ssembled, each Jaguar is then indi- dually road tested and any faults orrected. It is then road tested again efore being certified acceptable for ale. Yet no description of Jaguar's uality control system can possibly convey the sheer excellence of the Jaguar in motion.

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If you are considering a fine luxury car this year, make a point of driving this best of all Jaguars. For the name of your nearest dealer where you can obtain full warranty details and a test drive, call these numbers toll-free (800) 447-4700, or, in Illinois, (800) 322-4400.

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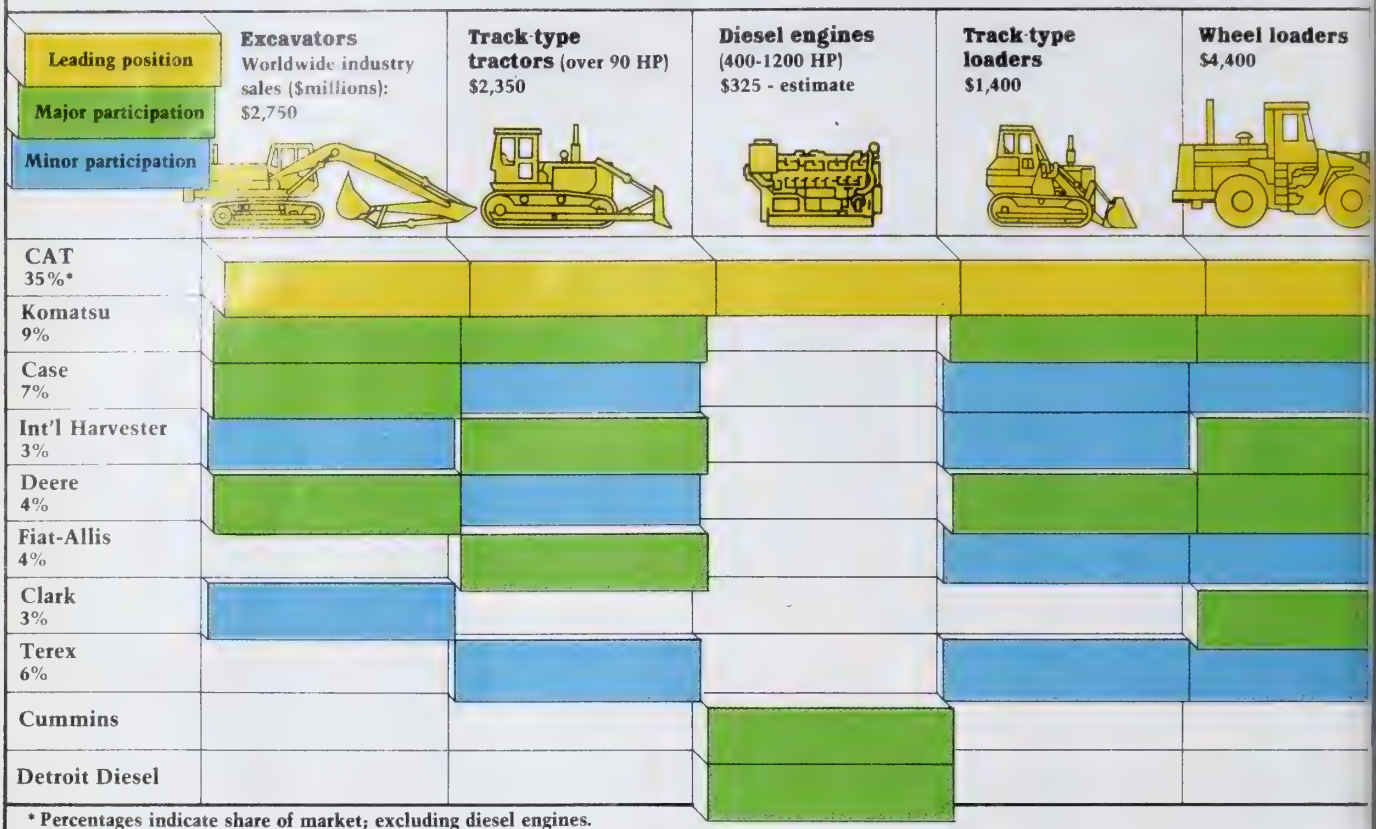
CAT's deep tracks

Caterpillar has plenty of rivals in each of its five major business segments. But CAT comes out on top in almost every market it enters. And no one can match CAT model for model across the whole product spectrum.



*** Percentages indicate share of market; excluding diesel engines.**

Source: Wertheim & Co., Inc.

the recession surprisingly fast. "We'll be ramping up in the latter part of this year for a much-improved 1982," Morgan admits. But he's not the kind of man who worries much about the short term. Consider the way Caterpillar handles startup costs. Resolutely, it refuses to pass along expenses associated with new plants in the form of higher selling prices. That would make life too comfortable for the competition. No matter that it crimps earnings this quarter or that.

In recent years CAT has spent vast sums for new plants and machines—over $2.9 billion since 1975. Now the company has more capacity than it needs. As much as one-third stands idle. Predictably, profits have been hurt. CAT made 8 cents on the sales dollar in the mid-Seventies; now it gets barely 6½ cents.

Ahead, as business improves and overcapacity shrinks, those margins will rise. Analysts, in fact, project an accompanying reduction in capital outlays that will give earnings a double boost. But Morgan peers owlishly through his glasses and demurs. It isn't that he doubts profits will improve. Just that he knows expansion must continue. Between now and 1986, Caterpillar plans to invest almost $5 billion on more new plants.

Suggest to Morgan, a 35-year veteran who climbed via sales, that his stockholders might be happier if CAT pampered profits by slowing expansion, and he almost recoils in horror. The biggest sin in Peoria is for a plant to be unable to meet an order and place customers on allocation. In Morgan's book scarcities are more to be avoided than the inefficiencies inherent in any crash spending program. Scrambling for materials and work hours, says Morgan, results only in lower quality standards and higher costs.

Instead, Caterpillar patiently adds plants. Its aim is always to have slightly more than enough capacity to meet demand peaks. Better to shave margins at times like the present when demand is soft than to risk losing customers because shipments are late or because its products are poorly made. Morgan has Caterpillar running to a strategic plan that will soon be updated to 1995. Its basic aim: CAT must keep growing at 6% annually in real terms, as it has done for the past 30 years.

Clearly this is no easy task. Few of the 140-odd countries where CAT does business can expect their economies to expand that rapidly. Moreover, growth inevitably gets tougher as you get bigger; Caterpillar already holds 58% of the U.S. market for construction equipment. Worse, the interstate highway system is largely in place.

Mention that to Morgan and he gives a thin smile. Nowadays, Caterpillar gets only about 15% of its domestic from highway construction jobs more orders come from building chines to lay pipelines, to exc mines and to build sewers. "One r we've had such little pain and str says Morgan, "is because all we had was change the marketing emphasi

What Morgan means is that Cat lar has considerable control over its destiny. By ingeniously mixing co nents, for example, it expanded scrapers and loaders to hydraulic ex tors. By constant adaptation, its neers created some 120 different chines serving almost as many ma Product diversity is just as importa geographic diversity.

Its diesel engines, for example, limited to earth-moving vehicles, power boats and on-highway truck are even used as backup generato hospitals and power plants. Since engine sales to outside customers a doubled, to $1.4 billion. CAT n breathing down the necks of both mins and General Motors' Detroit I and is the nation's largest proc counting units going into its own cles. Diesels now amount to 25% company's total business. To ac Caterpillar's overall growth target, gan must crank engine sales even h however, moving out of the mi

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President Joseph Fabick (right) *of John Fabick Tractor Co.*
A distribution network that's unmatched for speed and efficiency.

range that CAT dominates into larger and smaller units. Also, with an eye on offshore oil rigs, CAT must expand further into gas turbine engines, perhaps even buying International Harvester's Solar division, which is on the block.

Other new product possibilities: power shovels, cranes, concrete pavers, on-highway trucks—expect a bid from CAT if cash-strapped Ford sells its truck division—and big-wheeled tractors. Caterpillar already has some prototypes on test at its Arizona proving grounds and clearly wants to break into this end of farm machinery, where Deere is dominant.

Call it the happy coincidence of long-range planning, if you will. But CAT to be moving into newer markets products more aggressively just wh competitors are in disarray or beat retreat. WABCO, its neighbor on th nois River, has quit making motor ers and scrapers. Both Massey-Ferg and General Motors have sold their struction equipment offshoots to a German entrepreneur. And rumors tinue to circulate that beleaguered national Harvester will also bow o concentrate on farm machines.

Meanwhile CAT's hold on its ma only gets stronger. Look at it this Caterpillar's foreign sales alone are more than the combined total sal Japan's Komatsu and Tenneco's J.I. its closest rivals. While in the U. construction equipment, CAT ou all of the next eight firms combine 1985, according to Merrill Lynch's ander Blanton, CAT could have $1 lion in sales and be earning over share, up from $5.50 or so this year.

What makes Caterpillar even mor midable is that it is really two compa There's the Peoria-based, globe-gir operation that makes and distribute yellow machines. Then there's the eq important sales and service net Worldwide, there are 230 indepe Caterpillar dealers. Among them the ploy some 90,000 salesmen and me ics, gross about $14 billion annuall

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a combined net worth that probably ·ds Caterpillar's own $3.4 billion.

w do you become a CAT dealer? l in line and bring plenty of money standard reply. The average tenure years, and since many U.S. dealer- pass from father to son, only a e or so come onto the market each To qualify, a new dealer needs $15 on in unencumbered equity and a ned business record. The average r grosses $60 million, but some do d $230 million annually. In the U.S. New York's Syracuse Supply Co. is cly traded. General Electric owns dealerships in Colombia and Ven- a, while Unilever operates several rica. In Yugoslavia, a workers' coun- lds the franchise. In one of commu- 's curious anomalies, it can make s but not keep inventories.

ATs are wealth-producing ma- s and our job is to make sure they on line and keep working." That's lent Joseph Fabick of St. Louis' Fabick Tractor Co. His franchise some 73 Missouri and Illinois ies and has been in the family over ars. Sales are close to $200 million. eeps two helicopters, a ten-seat jet plane, two luxury coaches and 100 radio-dispatched service vehi- onstantly patrolling his turf.

ick's specialty is pipe-laying gear, of which he buys from Caterpillar and custom builds to suit a customer's needs. His computer keeps an updated list of equipment in use in his service territory. In turn, it is linked with every other CAT dealer and with Caterpillar's distribution center in Peoria. One result: Caterpillar and its dealers meet 97% of their emergency parts orders within 24 hours and do not charge customers for some orders that take longer than 48 hours to ship. Lee Morgan calls this "the most responsive distribution system of its kind in the world."

"I saw my competitors cutting back and said to hell with that," says Fabick, who boosted his sales force by 20% during the current recession.

Despite such lavish capabilities, Caterpillar is conservatively financed. It has only 27 cents of long-term debt for each $1 of equity, and the Peoria corporation would have been hard pressed to grow so fast without its independent dealers. They sometimes find it easier even than Caterpillar to raise new funds. "I saw my competitors cutting back and said to hell with that," says Fabick, who boosted his sales force by 20% during the current recession. In contrast, some competitors, particularly the less well-heeled, have been shutting their doors as business falls off. All told, CAT dealers spent nearly $200 million last year to expand.

Troubles? Even Caterpillar has its share. To fund those new plants, Morgan must soon offer $300 million in debentures, after failing to borrow in 1980 when interest rates spurted. He must strain the loyalty of his UAW workers to the limit by insisting on more automation—only 35 robots so far installed. Abroad, Morgan worries about tariff barriers, particularly as the dollar strengthens. Even though over half of CAT's business comes from overseas, only a fifth of its machines are built there.

Then there's the question of selling to the Soviet Union. The Russians want an estimated $800 million worth of CAT equipment to build a natural gas pipeline to Western Europe, and Washington must approve the deal. If Morgan doesn't bag that order, the Japanese probably will.

Fortunately, however, CAT has such broad diversity—in terms of products and geography—that none of these challenges is a fundamental threat. Caterpillar earned enviable status through a simple, straightforward strategy of ignoring short-term swings and catching long-term moves. For the moment, that's a winning combination on Wall Street. But Lee Morgan takes it all in stride. He would rather play Peoria. ■

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'ling insurance only to people who don't ve many accidents may be a simple idea. t Lou Foster of 20th Century Insurance has ade a bundle at it.

Skimming the cream

By John Merwin

VERYBODY KNOWS HOW BAD the auto insurance business is these days. You've heard all the groan- about skyrocketing auto repair costs soaring medical bills. In 1979, for ance, auto insurance companies on age paid out $1.01 in expenses and ns for every $1 of premiums taken The only reason most auto insurers ed a profit is that they earned invest- t income on those premium dol- before paying them back out to r claims.

ard times may be plaguing the in- ry, but not a small California auto rer named 20th Century Insurance In 1979 and again last year, 20th tury's expenses and claims ate up 91 cents of every premium dollar ing in, or 10 cents less than the petition. That extra dime may not d like much of an edge, but when re earning $72 million in premi- , it works out to an extra $7.2 ion pretax. Then throw in $5 mil- of pretax investment income and e talking about some eye-popping ings.

djusting for an Apr. 27 split, 20th tury's 1980 earnings reached $3.15 share, in what was supposed to be pits of a property-casualty insur- cycle. That's up 32% from 1979, from the year before and—fasten seat belt—up a stunning 840% 1975's earnings.

hat's behind this auto anomaly? A ear-old supersalesman named Lou er, a onetime Detroit door-to-door ker of appliances, who later spent ears becoming a remarkably suc- ul independent insurance agent. er learned a lot in those years. Per- what he learned best is that auto rance agents aren't really neces- "People would say to me, 'Gee, Lou, you're doing a great job for me,' " Foster recalls from his new Los Angeles high-rise office. "I'd tell my wife, 'Honey, I haven't done a damn thing for them. All I do is call the insurance company and collect a 15%-to-30% commission off every policy. I can't imagine what I can do for them that the insurance company can't do directly.' "

So back in 1958 Foster left his insurance agency and founded 20th Century. He was going to sell auto insurance directly to the public with no pavement-pounding agents in between. Oh, yes, there was one other thing Lou Foster learned along the way. It's called skimming the cream. Foster was going to concentrate on insuring the least-risks, which tend to be mature, stable people driving conservative cars. Couple that with eliminating agents and Lou Foster had himself a better mousetrap.

20th Century Chairman Lou Foster
Who needs auto insurance agents?

Of course, Lou Foster isn't the first guy to think up cream-skimming in the insurance business. It's just that he skims it thicker. For years GEICO insured only government workers, letting the government gather a vast pool of stable prospects. But Foster wove a finer screen into his sieve. His computer churns loss statistics constantly and outlines what sort of auto owners suffer less theft or become involved in fewer collisions. That means studying ages, driving records, auto types, neighborhoods, marital status and so forth.

A call to 20th Century to inquire about rates goes in part like this: "Are you under 25? Married? How long? How many cylinders does your car have? What type of transmission? Any mental or physical impairments? Ever been denied insurance?" Answer a couple of questions wrong, as half of the callers do, and 20th Century won't even send out an application. Of those that return applications, another 15% are winnowed out.

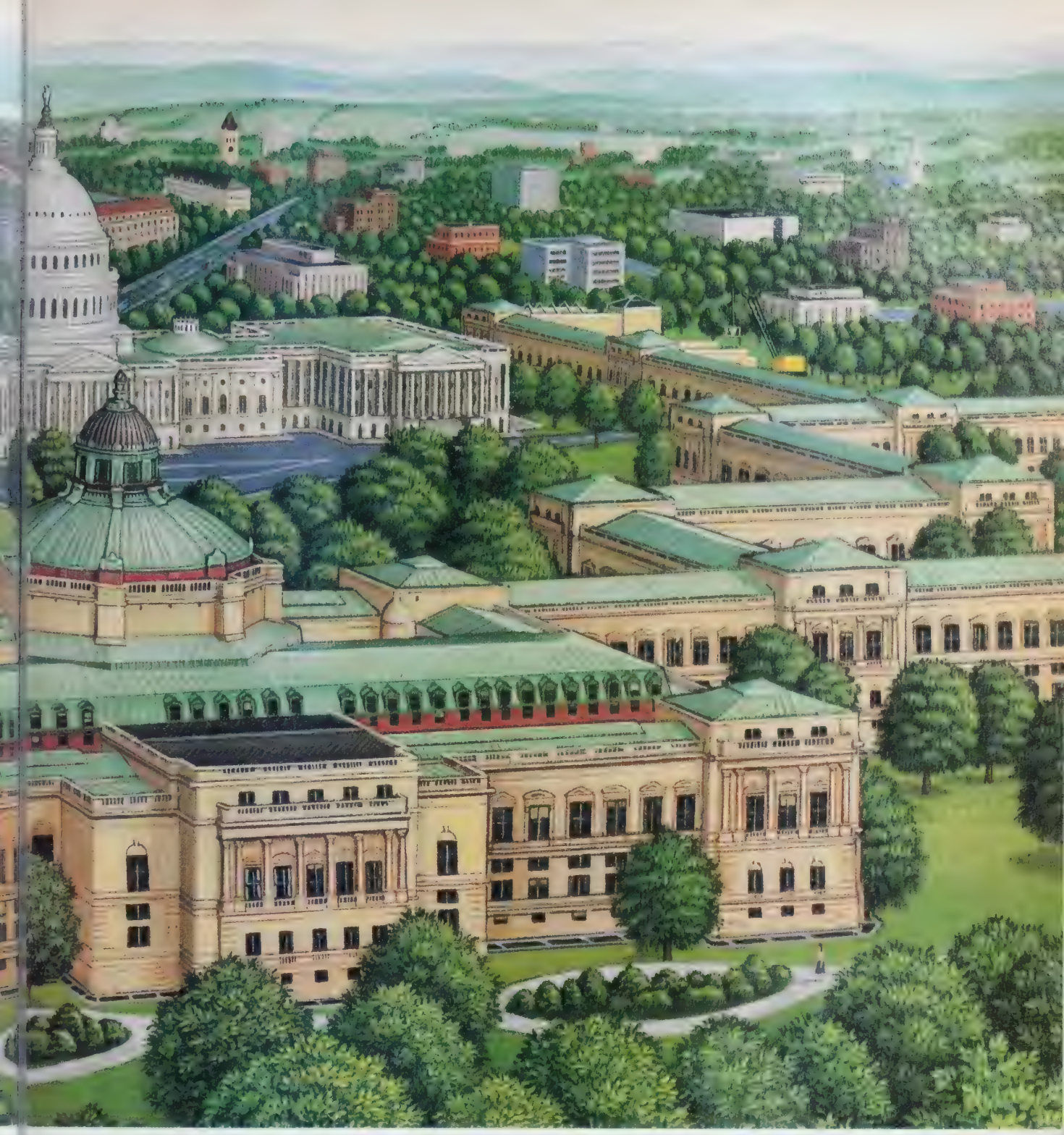
A caller may be too young (under 25) or too young to drive a sports car (under 30). Anybody driving a Corvette can forget it. They're made to be driven fast. Porsche drivers are out of luck, too—Porsches are stolen frequently—as are other superexpensive cars 20th won't insure. What Lou Foster really wants is a married person over 30, driving a Ford or Chevy with an automatic transmission, living in a nice neighborhood and going to church on Sunday. "If you're like that, every auto insurance company in the country ought to be crawling on its knees to get your business," Foster says, rubbing his hands up and down on the sides of his leather chair.

But Foster isn't just making a pile of money insuring people who are terrific risks. He's too shrewd for that. To protect his business he's also passing along part of the cream. A State of California 1978 consumer study revealed what 20th Century's customers already knew, that the company's rates were generally far below the competition's. In fact, in some cases 20th Century's rates were less than half of State Farm's.

With publicity like that, 20th Century hasn't even bothered to advertise for years.

Of course, that's the ultimate in selling, having customers knock on your door. But long before Foster had them

If all the books in the Library of Congress were books, it could take you twelve miles to get from A to Z.



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sing to his doorstep he was rapping ıeir doors, learning the art of pros- ng and selling. It's his penchant for ›ecting, though, that led Foster to ›rtune, today worth $9 million in Century stock alone.

a teenager in Newberry, a town of) astride the upper peninsula of igan, Foster worked the only laun- oute in town. He spent one day ng up laundry and loading it on a ıt train for Marquette, Mich., 100 s away, home of the nearest laundry ıtion. Several days later Foster d meet the return train, pick up the ly laundered clothes and deliver , receiving a 25% commission. left him plenty of free time. "I : summers working two days, while ıming, fishing and learning to play ' he remembers. "A guy working in rugstore was averaging about $20 a for putting in six days a week, ten

Foster wants to insure a ried person over 30, driv- a Ford or Chevy, living in ce neighborhood and go- to church on Sunday.

a day. I wasn't too popular with of those fellows, but that's the sto- commissions." It's also the story of prospecting.

er graduating with a political sci- degree from Stanford, Foster turned a selling job with a Union Carbide diary, because the personnel direc- ›ld him if he really wanted to learn g, door-to-door was the best train- That was during the Depression, jobs like the one at Union Carbide as scarce as a nickel cigar today. ıere was Foster out in Detroit, ring- oorbells and singing the praises of erators, washing machines and ım cleaners. Within a year Foster urning $1,500 a month in commis- , in part by offering kids $5 if they nced a relative to buy an appliance him. More good prospecting.

ed of door-to-door selling, cold ıer and the grimness of Depression- ı Detroit, Foster pulled up stakes rove back to California, where he is own appliance shop for a while entering the insurance business in "L.A. wasn't Newberry," smiles r, "so I had to figure out a way to nsurance without driving all over " One day Foster spotted several red Western Electric workers eating along a railroad siding outside the y. "I started going down to that every day at noon and handing out ırds. There were 440 people work- that building, and four years later I elling 390 of them casualty insur- ' Foster recalls.

The Up-And-Comers

Not only had Foster found a host of prospects in one spot, he had also stumbled onto an important idea, the notion of skimming the cream. "Back then, working for the telephone company or another utility was a prestigious job," Foster says, raising his ash-gray eyebrows. "The utilities had their pick of employees. They might hire 1 guy out of 15." So all Foster had to do was work the telephone company employment roster.

Before long Foster even had his own office in the Western Electric factory. World War II and the Navy interrupted his insurance career, but after the war he was back in business for himself. Through the next few years Foster began developing a second important idea—that auto insurance agents really aren't needed. Why not convince customers to come directly to the company? How? Offer them a good deal and they might.

In 1958 Foster took the leap, leaving and later selling his own insurance agency to found 20th Century. Friends and business associates bought 273,000 shares of stock at $1 apiece; Foster kept 27,000 shares for himself. Then he went back to his old auto-insurance customers and told them, "If I could help you as an agent, just think what I can do for you as president of the company." All but one of 1,300 clients transferred the auto policy part of their casualty insurance to 20th Century. Foster's bait was the same then as now, low rates for those who deserve them. Slowly but surely Foster's plan began to work.

Technically Foster didn't found a stockholder-owned insurance company like Allstate, or a mutual like State Farm, but rather a reciprocal, which is like a cooperative. A reciprocal is a way to poor-boy it into the insurance business. While, in California, a stock company required $1 million to charter, a reciprocal could be chartered for a mere $200,000. But there was a disadvantage. If losses at a reciprocal ran too high, policyholders could be assessed beyond their regular premiums. (That never happened at 20th Century.) On the other hand, reciprocals had an advantage. They didn't pay taxes on earnings retained for the business, a clear edge for a tiny company. Nevertheless, jumping into the auto insurance business with no name identification and limited finances was slow go. It took 20th Century ten years to reach $1 million in sales. Then the momentum began to build. Last year alone the sales gain was $14 million.

By 1968 20th Century had grown large enough to abandon its reciprocal status. Foster converted it into a stock company by issuing shares to his policyholders. That proved to be the turning point. Foster called the Los Angeles *Times* to say that in effect he was handing profits back to his policyholders, in the form of stock. The paper wrote a story that gave 20th Century its first wide recognition. Foster's phone started ringing off the wall. Ten years later the *Times* did it again by publishing the California State Insurance Board study. To this day Foster says he has a soft spot in his heart for the paper.

After 1968 growth began snowballing, but Foster held the reins tight, financing growth internally. Now that he doesn't really need new capital, investment bankers are pounding on his door, Foster says. But he's not selling any stock. "What would I do with the money?" he asks. Like other 20th Century stockholders, Foster has made out quite nicely. One share of the original investor stock, issued in 1958, has rocketed from a dollar in value to nine shares worth a total of nearly $500. A dollar of stock issued to a policyholder when 20th Century converted to a stock company in 1968 is worth about $160 today.

Is there anything around that might pop Foster's bubble? What if insurance giants like Allstate, State Farm or Farmers turned heavily into "preferred risk policies," in effect playing Foster's game? "They've still got to pay the agents," Foster replies. And what if they drop agents? "Impossible," claims Foster, "because the big companies sell many types of insurance and they need agents to represent the various lines. We sell only one product, private passenger car insurance."

With more than 250,000 policyholders renewing at a phenomenal rate of about 97%, far above the industry norm, 20th Century is becoming something of a cash machine. But Foster has no ambitions beyond operating out of a single office and selling only to Californians, owners of about 11% of the nation's cars. "Why should I want to grow all over the place when we've barely scratched the surface here?" Foster asks. "There are billions in auto insurance premiums paid in California alone, and I'm only selling $73 million worth." So a would-be entrepreneur has a clear shot if he tries to copy Foster's idea in any of the other 49 states.

Lack of national ambition, however, is not to be mistaken for lassitude. Walking around the office in a brisk, military fashion, Foster concedes that "a lot of people around here don't like me because they think I'm an autocrat. Well, maybe I am," he adds, "because I've always liked to work like crazy and keep finding myself thinking everybody else should too." Rounding the corner, Foster spies a fellow staring out the window from his desk. "Now if I were an autocrat today," Foster winks, "I'd go over there and ask that guy why he's staring out the window." He pauses for a moment, but passes by. ■

The American Institute of Certified Public Accountants has boldly advocated indexing taxation. And boy, do they make it sound good.

Death to bracket creep?

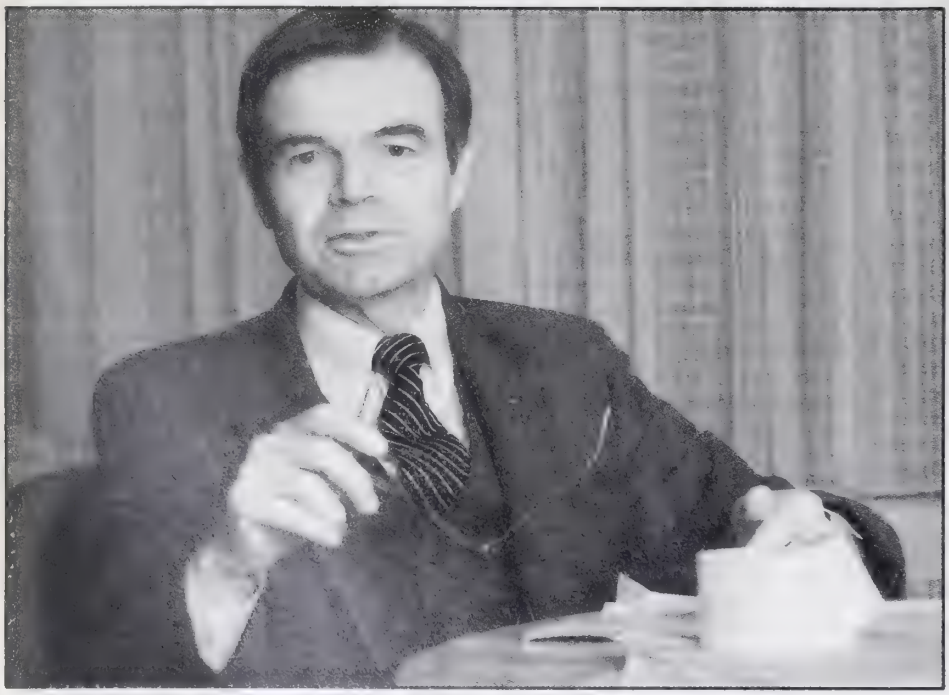
Edited by Richard Greene

ON THE CAMPAIGN TRAIL, Ronald Reagan thought that the indexing of taxes was a swell idea. Why not? It's a simple concept, extraordinarily appealing to middle-class workers who have been robbed by bracket creep. But you don't hear Mr. Reagan talking too much about indexing these days. That's no surprise either. When you're trying to cut taxes 30%, that's hardly the time to eliminate one of the government's most effective sources of additional income.

But although Mr. Reagan has stopped talking about indexing, the issue hasn't died. Just a few weeks ago, the American Institute of Certified Public Accountants came out with a statement explaining how indexing can—and should—be implemented in the U.S. tax code. That was a follow-up to a prior policy statement calling for indexing of taxes.

When William Raby, a partner at Touche Ross and chairman of the AICPA's federal tax division, talks about it, it all sounds elementary. "The effect of indexing should be to keep the relative tax take at a constant level. With indexing, once Congress decides what level of the gross national product should be taken up in taxes, it will stay at that level."

Herbert Lerner, chairman of the AICPA's tax policy subcommittee and a partner with Ernst & Whinney, adds: "This will force Congress to pick a particular level of taxation and sti it—not allowing inflation to d what taxes are paid in."



AICPA federal tax division chairman William Raby
"There's an addiction to inflation at the congressional level."

Critics argue that if you index infl into the tax system—as in Brazil, its 80% inflation rate, or Israel, wi 130% inflation rate—you eliminat pain, thereby cutting out governm need to combat this economic di "To the contrary," Raby replies, "I that if you really want Congress t inflation, you need indexing. Othe there's no incentive. There's an tion to inflation at the congressiona el because Congress has the abili buy votes with its spending prog and also buy votes with tax cuts, still ending up with money becau inflation. Under the current systen government's income from taxes go even faster than inflation."

Others hasten to add that Congr not a bunch of duly elected Machi lians. "I don't think the congressme consciously trying to benefit from tion," says Leon M. Nad, a partner Price Waterhouse. "They have bene from it, but I think they're ready t long way toward correcting past er

If indexing does become a hot iss next year, as some people suggest, t still one major stumbling block: W index do you tie taxes to? The AICP a Fred Astaire number around the tion: "The index used to measure tion should be readily accepted. . index such as the Consumer Price would generally meet these re ments . . . but the CPI has been cized for a number of reasons. . . ." ever, "the public generally consider CPI the official government indicat

"In conclusion," says the AICP port, just when you're yearning for "we believe that a single generall cepted and consistently applied should be used." Return to go and d collect $200.

There may be a more serious pro with the AICPA report than this wa on the question of which index shou used. Nowhere in their report d accountants say that indexing is cure for inflation. Says Price W house's Nad, "There's nothing w with indexing as such, if it's used other techniques that actually fight tion. Indexing is fine, but it doesn't with the disease. It just gives relief one of the symptoms."

Beyond the tax cuts

ALL THE TAX NEWS coming out o government these days deals wit cuts. What about the non-ta changes proposed for the tax code?

John E. Chapoton, Assistant Sec of the Treasury for tax policy, pref talk in generalities. "Everyone seem agree that we need capital cost r

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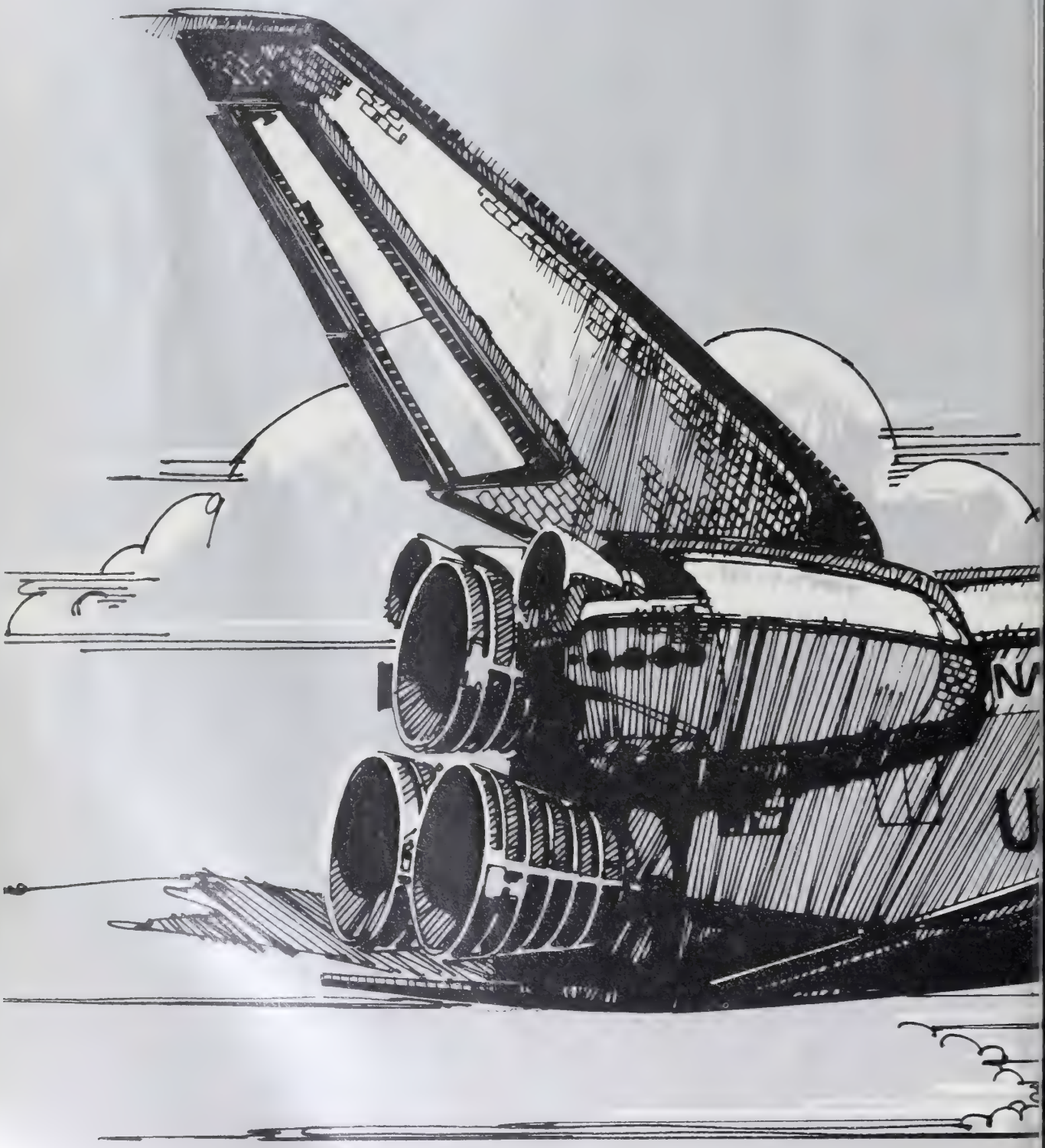

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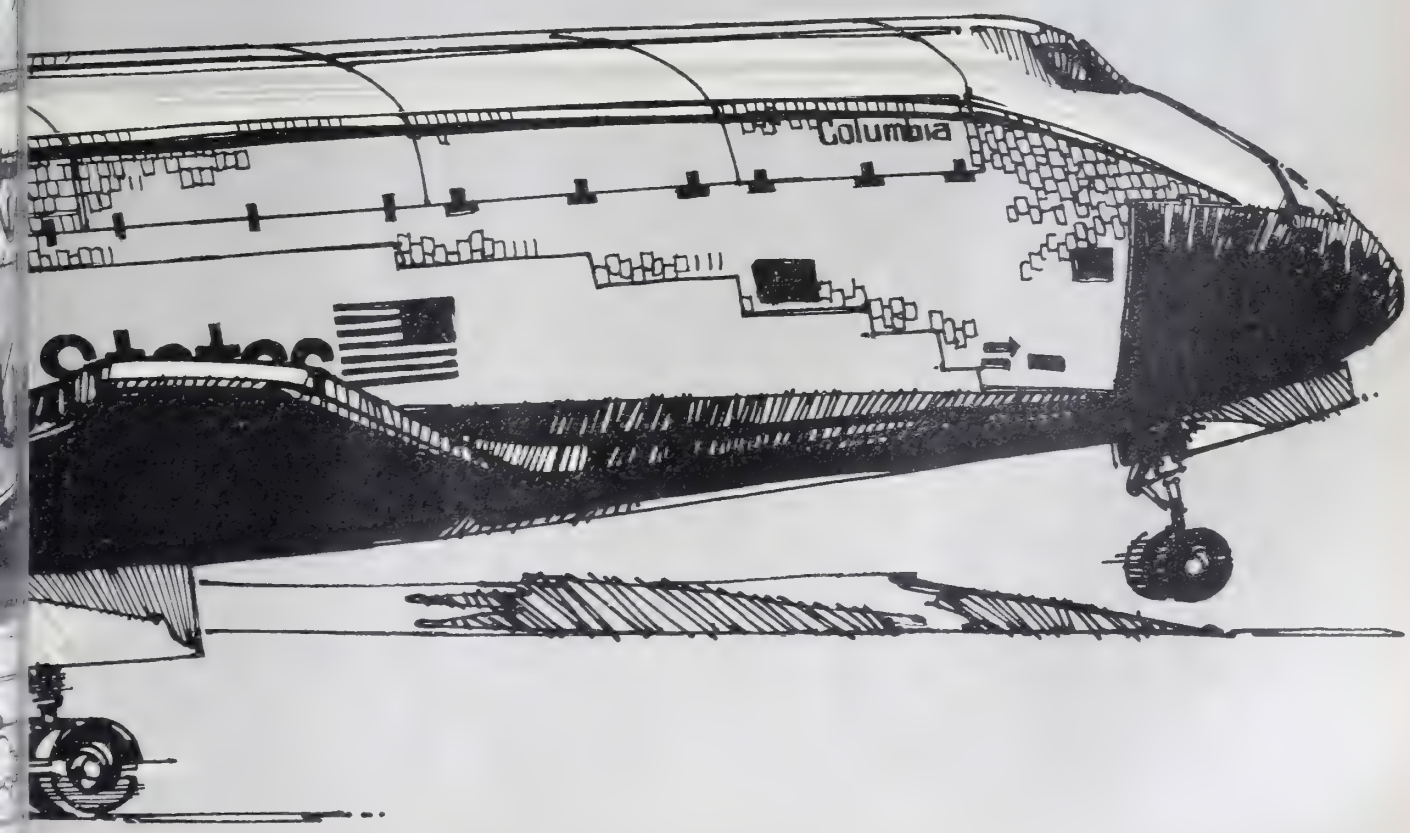

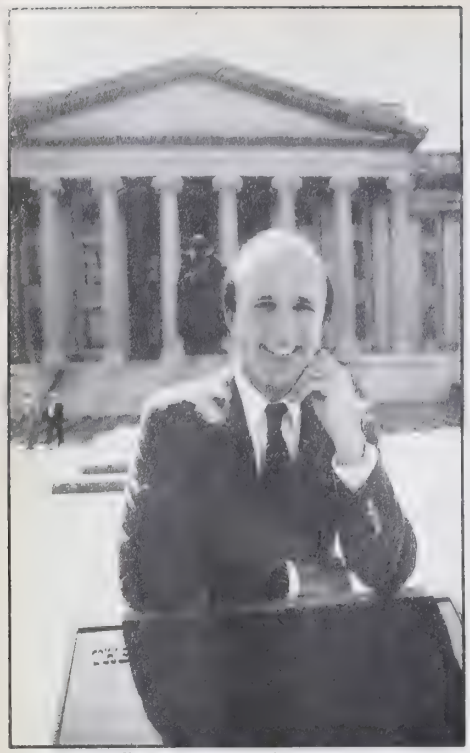

Treasury officer John E. Chapoton
"We have to do something. . . ."

ery," he says. "But to me, we have to do something to reduce the share of personal income taken in taxes. When you have high rates, you have more problems in administering the law, more resistance, more disgruntlement among taxpayers."

For specifics on what some of the significant changes are likely to be, the recommendations of Congressman Dan Rostenkowski (D–Ill.), chairman of the House Ways & Means Committee, are an interesting guide. A few items on Rostenkowski's shopping list:

- Easing the so-called marriage tax, which Congresswoman Millicent Fenwick (R–N.J.) called "absolutely ridiculous and immoral," by bringing the tax rates of married couples into line with what they would be paying if they were not married.
- Allowing broader use of IRAs, upping the limit from $1,500 to $2,000. In addition, there will probably be a push to adopt the use of so-called LIRAs—not foreign currency, but limited IRAs—which could be used by individuals working for firms that offer inadequate pension plans. This would fit in with the government's policy of encouraging capital investment.
- Cutting the maximum tax rate on unearned income from 70% to 50%. This one is a little sticky, because it sounds like further help for the wealthy—but remember, it came from a Democrat who thinks there should be no distinction between earned and unearned income.
- Giving special aid to small businesses through a series of tax adjustments and productivity incentives. Although small business has rarely been able to organize itself into an effective lobby for generating legislation, when helpful legislation does come along it tends to be very popular with congressmen.
- Providing tax incentives for more industrial research and development. Politicians have been talking about helping along R&D for years, but the widespread fear of the U.S.' losing its competitive edge, combined with the current tendency to give business a break, would seem to give it an excellent chance now.
- Reducing the marginal tax rates or widening the tax brackets generally to help combat the effects of inflation and social security tax increases. Rostenkowski stresses the need for such changes, particularly for taxpayers in the $20,000-to-$50,000 range. Says Rostenkowski: "This segment of the workforce makes up 43% of all taxpayers and pays 50% of all individual taxes."

But Rostenkowski's list does not exhaust the proposed tax changes. For example, the gift and estate tax structure is archaic and in need of modernization. Explains Leon M. Nad, national tax partner with Price Waterhouse, "The gift tax gives you $3,000 a year in exemptions. That's been the law since 1942. With inflation, it should obviously have been raised since then. But what do you think it was before 1942? $4,000!" Nad chortles. "And before that? $5,000!"

The question goes beyond simply raising the gift tax exemption. Says Bernard M. Shapiro, former chief of staff of Congress' Joint Committee on Taxation and now Price Waterhouse's national director of tax policy: "There is sentiment behind softening the penalty of passing property and businesses from generation to generation. There's a great deal of support for easing the tax burden on the passing along of family farms, for example."

Another issue that's going to be hot in the immediate future is the question of offering tuition tax credits. "This is a very controversial one," says Francis M. Gaffney, national tax director with Main Hurdman & Cranstoun. "If Reagan does cut the loan funding for college students, the tuition tax credit will stand a good chance." Of course, this is a particularly emotional issue since tuition tax credit for religious institutions raises the old concern over mixing church and state.

The IRS isn't likely to forget about tax shelters in the new Administration, either. There's likely to be a continued broadside attack on the whole realm of shelters the IRS deems "unproductive." The IRS is willing to forego income that is shielded by shelters, but only if there's some economic good attached (FORBES, *Apr. 27*).

Specifically, there'll be fireworks in the area of commodity tax straddles, according to Stuart Steinmark, a partner

Taxing Matters

with Seidman & Seidman. The que of clamping down on the use of modity spreads to shelter incon going to come up in the near fu This, too, is a sticky one, inasmu Donald Regan, Secretary of the sury, was heavily involved with device in his past incarnation as he Merrill Lynch.

But even if a number of tax shelte by the wayside, on balance the tax is likely to come out ahead. The mo Congress and the IRS seems to be to making things easier rather than to er. Let's just hope the mood sticks.

Trouble in the tropic

VERY QUIETLY two months ago, Ninth Circuit Court of Appeals uph 1978 tax court decision that has reaching implications for how mul tionals set up offshore insurance su iaries. While it probably won't soun death knell for foreign captives, the sion, which shot down Carnation use of a captive insurance compar going to send scores of other scrambling off to their accountants.

Ten years ago Carnation set up a muda subsidiary called Three Flowe surance Co. to reinsure some of its r Carnation capitalized this subsi with a paltry $120,000 in cash and bo a $1.95 million premium for a three blanket property policy with an unre company, American Home. Then the tricky part. American Home sured about 90% of the risks—to the of $1.75 million—with Three Flo with the understanding that Carn would capitalize Three Flowers up million if necessary.

It seemed like a great deal for C tion. First, the company of conte cows was able to deduct all the pr ums it paid to American Home as a ness expense. Then it turned aroun claimed the $1.6 million that Ame Home reinsured with Three Flowe foreign-source income. Carnation ac ly collected the money from Ame Home in Bermuda. Says Ernst & W ney partner Martin Linker: "Carn claimed foreign tax credits against U.S. tax liability—which reduced overall tax burden." Total tax savi $800,000, potentially.

Carnation was trying to convert mestic into foreign income. Of co says Ernst & Whinney partner Ste Eldridge, there are other advantage captives: "It gives you a direct into the reinsurance market, overhead, and you avoid state insur regulations."

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Taxing Matters

ruled that Carnation hadn't really bo any insurance at all—that it had si shifted money around. The three a ments between the companies were terdependent," the court ruled, so C tion's premiums were merely a "co bution to the capital of a subsidi. You can't deduct as an expense m you move from one pocket to the ot

In arriving at this decision, the court asked itself: "What if someon

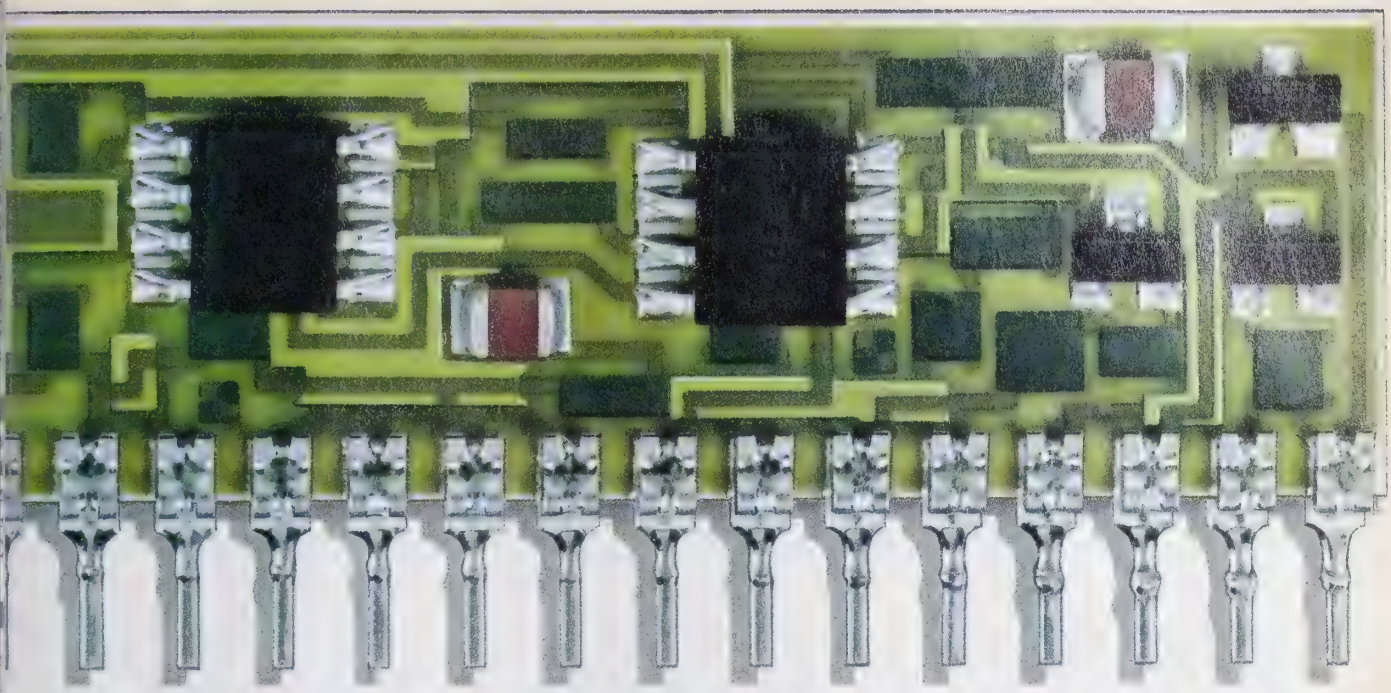
If Carnation hadn't been qu so clever and sunk more th a token $120,000 into its c tive, the outcome of the c might've been different. "C nation was just sloppy."

actually sued Carnation?" They also plied the answer: "Carnation would l turned to American Home—w would reach out to Three Flowers. T Flowers would then be forced to tur Carnation for at least part of its prom $3 million in additional capital." So, nation was self-insuring.

If Carnation hadn't been quite so er, it might have kept its deducti Had the firm sunk somewhat more a token $120,000 into Three Flowers outcome of the case might've been ferent. With sufficient capital, T Flowers might have come closer to i pendence from Carnation and might have run afoul of the tax court. "It here that Carnation was just slop says a partner at one of the Big E accounting firms. "Obviously, t wasn't enough capital. The premiun tio was 14-to-1."

But with the IRS' jaundiced searching out ways of disallowing o seas captives, many firms doubt that enough simply to put sufficient capit these subsidiaries. Instead they are l ing for other alternatives. Multinatio are setting up domestic captives, e cially in states like Colorado and Ten see, which encourage them. Other c panies are pooling resources to set jointly owned captives, each paying a portion of the total premiums. Ot are taking the big step and really g into the insurance business with t overseas subs, assuming a signifi amount of outside risks.

It's still too soon, however, to h crepe for offshore captives. Unless offshore captive shows a loss, which not be written off, the tax advantages quite enticing. And what happens if IRS says you have gone too far? The thing you have to lose is your de tion.—**Barbara Rudolph**



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By Charles N. Coppi
Vice President, Technology
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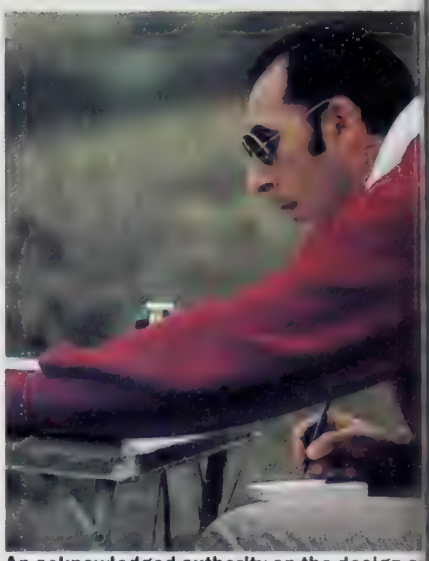

An acknowledged authority on the design a engineering of business aircraft, Charles Coppi has helped shape many of the significant technological advances found in three generations of Gulfstream executive aircraf

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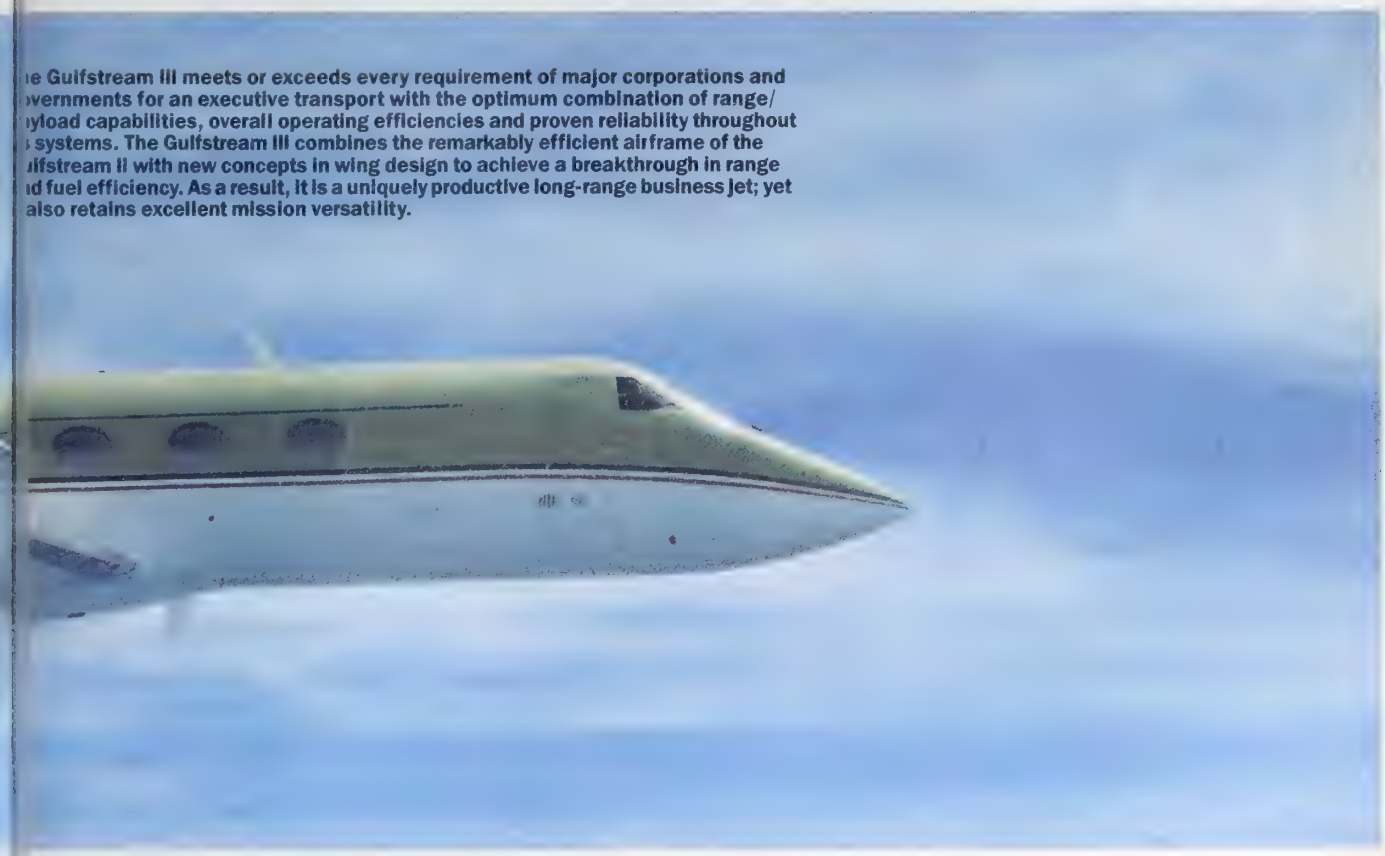

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rard Dusseldorp's father had trouble with bt, so this Australian real estate developer es little borrowing to finance his projects. n he raise equity in the U.S.?

A hand from the grave

eldorp outside his Manhattan town house
ging the unorthodox to America.

By Howard Rudnitsky

ERARD DUSSELDORP IS Australia's equivalent of General Growth Properties' Martin Bucksbaum Rouse Co.'s Jim Rouse rolled into An engineer who left Holland after d War II, Dusseldorp has become his try's leading real estate developer—he earned his success with some ly unorthodox techniques.

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hen, in 1977, Dusseldorp decided to International Income Property, a pany he operated initially as a vehi- or Australian and U.K. investors to U.S. income-producing real estate.

Now Dusseldorp is trying to make a bigger splash in the U.S.: Through a public offering, he hopes to raise $18 million in equity. Then he can add to a regional shopping center IIP owns, pay off some loans and expand further.

Though Dusseldorp, 62, is not well known in the U.S., his balance sheet is gold-plated down under. In the Fifties his Australian competitors thought being a specialist in one phase of construction was the only way to expand, but Dusseldorp disagreed. He figured that successful real estate development would require integrated control over projects, including self-financing. He made good labor relations a priority and provided lavish benefits.

That kept his company unusually strike-free. Then, in 1971, Dusseldorp was the first Australian developer to go public and to form a publicly owned real estate trust to hold his properties. The latter, General Property Trust, originally sold at a discount from appraised asset value. But today GPT, which has $250 million in assets, commands a 10% premium. What's more, per-share growth in asset value has averaged 25% annually since then. Lend Lease, however, develops and manages properties for others besides GPT. Last year revenues totaled $440 million and profits exceeded $23 million. Not huge by U.S. standards, but Dusseldorp is clearly a big fish in the South Pacific pond.

Dusseldorp got his start in 1951, when he founded a tiny construction business. "It was one thing to have ideas," he says, "but we needed a client. We weren't known, so we couldn't find one for over a year."

Then came a break. A large oil company had just completed a refinery outside Sydney and neglected to provide a gatehouse. Dusseldorp did the job cheaply and quickly—and it brought him more business. Through last year, Lend Lease's construction division has been involved in over $2 billion worth of projects around the world.

What set Dusseldorp apart from the crowd, however, was his aversion to borrowing. Every time he's tempted to borrow, he says, "I feel the hand of my father rising from the grave. He was a successful businessman in Holland, but he borrowed quite a bit. The Depression hit, and he was wiped out."

Lend Lease, of course, has to have some debt. In the early Seventies, it amounted to about 50% of total capital—high for Dusseldorp but low for comparable developers. Still, Dusseldorp secured his loans with specific assets, and made sure reserves and cash flow were adequate to cover payments. In 1974, while real estate trusts and contractors collapsed like duck pins, Lend Lease and GPT gained market share.

Today Dusseldorp is proud of his minimal debt burden. "You'll find few U.S. developers with an 80% equity ratio," says James Smith Jr., former head of Morgan Stanley's real estate subsidiary, who since 1980 has run IIP. Dusseldorp, in fact, thinks investment-income vehicles like GPT and U.S.-oriented IIP should have virtually no leverage: "This is pension and retirement money," he explains. "These people aren't entrepreneurs; they invest to obtain rising income over the years and to see the value of the properties increase if we manage well."

That's how Dusseldorp intends to attract U.S. capital to IIP. After his current offering, Dusseldorp hopes one-third of his investors will be from the U.S. Next year he hopes to raise it to 50%.

He plans to repeat his Australian formula, though Dusseldorp's concept of raising money via regular rights offerings is rare in American circles. Such arrange-

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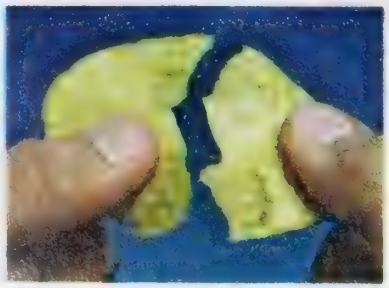

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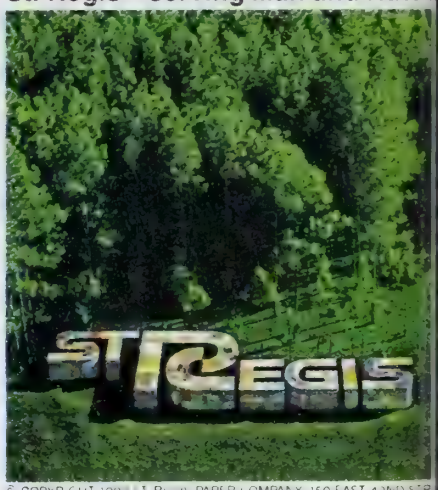

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s give existing shareholders first at new stock offerings. As is the with warrants, a separate market ops for them.

property trust like IIP functions like an equity REIT. It pays out all flow as dividends, currently a tax-return of capital. At the moment, NASDAQ-listed shares trade at and offer just under a 7% return. nown here, the company sells at a discount to the appraised worth, unlike GPT in Australia.

For expansion, however, IIP must make regular rights offerings. Unless such financings catch on here, Dusseldorp's growth will be limited. Another reason he might find the going tougher than at home: In Australia companies like GPT adjust assets annually, based on appraisals of market value. U.S. firms report assets based on historic cost; they can indicate current market value, but only according to a formula approved by the SEC. This difference means that IIP's U.S. results will seem less impressive than those of its Australian counterpart—something that could reduce investor appeal.

Dusseldorp has his work cut out. But doing things differently hasn't fazed him before. Maybe the unorthodox will turn out to be the right way again. ■

n't write off Disney yet. The long-awaited EPCOT adult amusent park will buy at least another five years of earnings growth. But lacing Walt has yet to be done.

The last great dream

By Nick Galluccio

VERYBODY SENSES THAT Walt Disney Productions has lost its magic touch. Such recent film releases as *ght Madness*, *The Last Flight of Noah's* nd *The Devil and Max Devlin* have all ed. Projected writeoffs on these films alone may go as high as $12 on. Meanwhile, attendance at Walt ey World and Disneyland, which act for two-thirds of its $900 million ues, has been declining, due to the ish economy and this year's late r. Now, for the first time in four , earnings have begun to falter, ping 9%, to $1.64, in this year's first For those investors holding Disney non—which at a recent 60¼ still s at 14 times projected 1981 earn-l-all this is cause for concern.

not too much concern. Investors till eagerly waiting for E. Cardon er, Disney's intense 65-year-old man, to play the two cards he has p his sleeve for so long: EPCOT Cen-d Tokyo Disneyland. Next year Dis-$800 million Experimental Proto-Community of Tomorrow (EPCOT) pen right next to Disney World near do, Fla. A sort of permanent world's r adults, EPCOT will feature such s as World Showcase, pavilions from countries and a butterfly-shaped Fu-World complex which looks into portation, energy and other topics. is even a monorail hookup to Disney World. EPCOT will also have German beer gardens, an English pub, French and Italian restaurants and, in a multispired pavilion, a theme show where the issues facing the world will be aired in a multimedia way.

"I don't see how anyone can say we're a conservative company," says Walker somewhat defensively. "Everyone accused Walt of being an idiot when he built Disney World. I know pumping $800 million into EPCOT is a big gamble with the current fuel crisis and a poor economy, but we believe it's going to pay off really big."

A big gamble? Yes, in one sense. EPCOT will nearly double Disney's present assets of $1.3 billion at one stroke. Still, Disney was able to finance most of that out of cash flow. Despite EPCOT, its balance sheet has been practically debt-free since 1974. Already Disney is counting on about $300 million in royalty payments from country and corporate

Disney Chairman Walker (left) *and President Miller in front of a model of EPCOT*
"EPCOT is a big gamble, but we believe it's going to pay off really big."

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nsors through the Eighties.

addition, starting in 1983, Disney begin to receive up to 10% of the eeds from admission tickets, rides, cessions and other attractions for chising its name to Tokyo Disney-l. Shrewdly, Walker decided not to up one cent for Tokyo Disneyland, in r to avoid lifetime pension liabilities apanese workers.

ll of which now leaves Disney's $200 ion-plus cash flow open for new in-ments. With EPCOT and Tokyo that d mount up to $300 million by 1983, r expenses, according to Theodore es of Montgomery Securities. How Disney spend all that cash? Says ney President Ron Miller, 48, a for-member of the Los Angeles Rams son-in-law of the late Walt Disney: an see building a Walt Disney World urope and South America. There's endous opportunity for growth of company in cable television and vid-scs as well. And EPCOT will give us

don't see how anyone can we're a conservative pany," says Walker, with COT costing $800 million.

chance to produce thousands of s of entertainment through our own cational cable-television network."

eanwhile, California-based Disney try more joint movie ventures like its nt $20 million *Popeye* production Paramount Pictures. Disney will double the frequency of animated ures, the kinds of movies on which Disney built the company. Here, ker and Miller are pinning their hopes his summer's release of the $12 mil-*The Fox and the Hound*, Disney's est budget animated feature film.

espite Disney's less than spectacular er of recent film releases, Walker and er are quick to point out that Disney y loses money on a movie. For ex-le, at a cost of $20 million, *The Black* , a relatively unsuccessful science on drama geared to a young adult ence, grossed just $26 million in U.S. Canadian theatrical distribution. But network and cable television and gn theatrical sales and the movie d gross $60 million.

hat Cardon Walker has done, of se, is finally to realize Walt Disney's great dream: EPCOT. In so doing, he robably bought Disney Productions ast another five years of solid earn-growth before the organization has ce the greatest challenge of all: re-ing Walt Disney's creative genius. Walker, who is doubling Disney's ation department to 200 employ-"There's no question it's going to be er from here on in." ■

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In the banking business, paradoxically, buying a loser can sometimes look like buying a winner—but only when the price is right.

Bad will

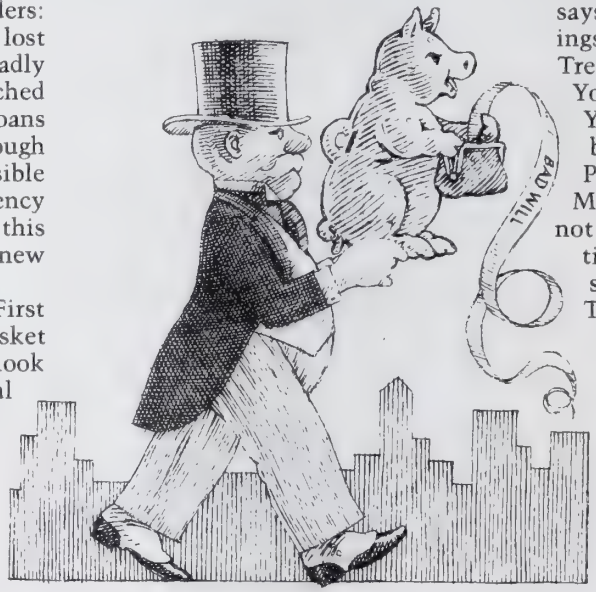
By Thomas Baker

LATER THIS YEAR, IF THE Federal Reserve Board approves, $2.4 billion (assets) First American Bank Corp., of Kalamazoo, Mich., will finally complete its acquisition of Detroit's $1.4 billion Northern States Bancorporation. If so, it will be a happy day for Northern States and its shareholders: The four-bank holding company lost over $5.1 million in 1980, and badly needs to be bailed out. With a wretched portfolio of low-interest, fixed-rate loans and a loan-loss problem severe enough for an $11 million provision for possible loan losses in 1980, it faces insolvency or further liquidation by the end of this year unless it is infused with some new capital.

Why on earth would profitable First American want to merge with a basket case like Northern States? A quick look at the combined *pro forma* financial statements in the prospectus tells part of the story. Separately, First American reported earnings of $10.7 million in the first nine months of 1980, while Northern States lost $6.7 million. But together the two banks would have reported $11.4 million in net income for that same period. Magically, the whole becomes greater than the sum of the parts.

Accounting is responsible for this mathematical impossibility. Because the deal is structured as a purchase rather than a pooling, Northern States' portfolio is taken in at current, lower market value rather than higher book value. That means First American may be able to buy Northern States for almost nothing. Although the bank holding company has a book value of $53 mil2ion, the deal is expected to close at a distress-sale price of around $18.2 million in First American common and preferred stock. That $34.8 million—the difference between the market value and the book value of Northern States' loans and investments—winds up being gradually *added* to the combined banks' earnings.

If that sounds ridiculous, consider this: It's only the mirror image of a situation that comes up all the time. When a company buys another for *more* than the fair value of its assets, the



difference is called goodwill and is thrown onto the balance sheet. Then it is gradually depleted by being charged to earnings over some period, often up to 40 years. In this case, however, the "negative goodwill" or bad will—labeled "accretion of discount" in the prospectus—is added to earnings. But there's a slight difference. It's taken into earnings over a far shorter period of time than 40 years—in this case, the terms of the various loan portfolios. Although the bad will wouldn't have been broken out separately on the income statement, it would have added $5.9 million to combined earnings in 1979 and $4.3 million in the first nine months of 1980—38% of total net income.

Was that bad will an incentive to do the deal? "It was definitely part of consideration in making it work," mits Dean Williams, First Americ chief financial officer. "For Nort States, the merger will mean more ital. For us, it means a presence in Detroit area, and although Nort States will not be in a loss position in first few years, it will be a slow impr ment. That's where the purchase count comes in, to help out our earn in the first few years."

First American will take Nort States' loans and investments, throw the bad ones and write the others d to what it feels they're worth $100,000, ten-year loan at 6%, for stance, would be worth only arc $75,000 if the market rate of that kin loan is now 12%. The bank still gets same payments on these loans, but will be carried on the books for a lot than was actually lent out. Over the of the loan, however, the bank sh eventually get back the whole $100 in principal—and thus a $25,000 pro

But are those profits for real? Willi says they are. "They are absolutely e ings, in the sense that it's like buyi Treasury bill for 80 and collecting You've made the difference as inco You bought something for less tha book value, and so it is gain to y Peat, Marwick, Mitchell partner N Moran agrees: "That existing ass not earning the market rate. The q tion is, what am I willing to pay f so that I am getting a market ret The difference is earnings, an comes in cash, too."

Clearly, it's true that wri down loans makes those loans n profitable. After all, lower a mean higher return on assets. the fact is that the same amou cash is coming into the ba there's no more money availab meet liabilities and pay for rowed funds than there was be That, after all, is why the bank wa trouble in the first place, and impr earnings don't necessarily mean thing has changed.

"This is really phony accounti claims one bank analyst. "They're pa less than book value for the bank, they're paying what it's worth." It's that a going financial concern gets than book value for its assets—in there's usually a premium. So the lack premium here demonstrates how far derwater Northern States really "They're really not earnings," the an continues, "they're accounting justi tions for prior mistakes, for the fact book value is a higher number." Jim I man, an analyst with the Federal Rese banking division, makes a similar p

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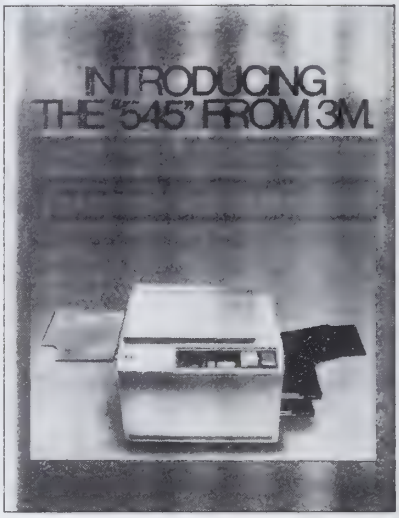

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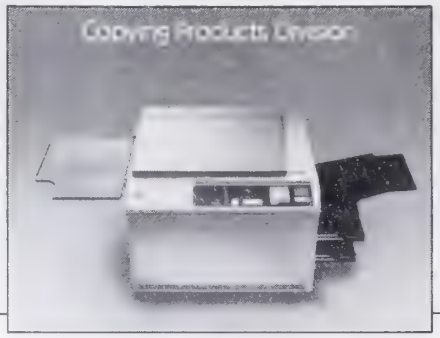

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e earnings are paper earnings, there's ash behind them. There's one thing can give you some insight into the ity of the earnings: They're tax-free." ı the IRS won't tax profits where there no more cash than there was before. rst American's Williams admits e earnings are, to a certain extent, a sure indicator of better perfor- ce. "It is not cash flow earnings im- ement. It is a book type of earnings rovement, but it really is earnings, use you are going to collect some- g eventually." Jerry Lindstrom, a ner with Ernst & Whinney, puts it her way: "They're going to be better ɔn a consolidated basis than they ld be separately. If the acquirer is

ey'll be better off consoli- ed than they would be sep- tely," says one accoun- t. "If the acquirer is strong ugh to carry that, fine." ıt's the point: One bank is ling out another, and be- th the improved earnings, h flow stays the same. In- tors who look only at earn- s won't see the real pic- e, good or bad.

ıg enough to carry that, that's fine." ıere's the point: One bank is bailing another one, and beneath the im- ed earnings number, cash flow re- ıs the same. Investors who only look ırnings in situations like this won't the real picture, good or bad. The s to the performance of these two s together will lie elsewhere—for ıple, in their statement of financial ion or long-term changes in the 's return on equity and assets.

rtunately, such potentially misleadituations don't happen every day. In only one other major bank deal in ɔast five years has involved a signifi- discount from book value—when antile Texas Corp. acquired Feder- Capital Corp. in 1976, and both of banks are doing just fine. Then, if interest rates take a dive between and when the First American deal is ly iced, that would boost the value of hern States' assets considerably— here goes some of the purchase dis- t. Of course, First American would have the option of selling off those assets and taking a securities gain. nore likely, however, that interest will continue to torment bank asset olios, and that means a lot more ıtial for situations where acquired s can look like winners—at least for le while. ■

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NORTH CAROLINA

Faces Behind The Figures

Edited by Jefferson Grigsby

"Dad's Vietnam"

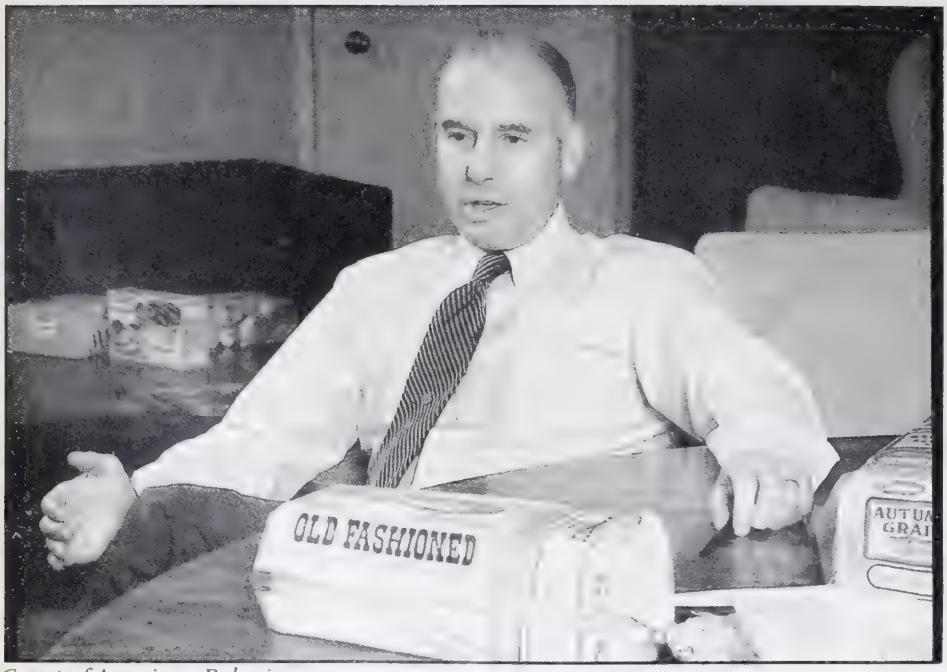
Former venture capitalist Robert E. Grant can't seem to make things come out right at troubled American Bakeries Co. His Rhode Island-based firm, Grant Associates, bought 11% of the Chicago-based bread and cakemaker in 1969 for $2.5 million. Ever since, Grant has been trying to protect that one investment—even to the point of serving as American's *de facto* CEO (FORBES, *Oct. 1, 1971*).

Not much good has it done: American showed a deficit in three of the last ten years, and operating income has never exceeded 4.1% of sales. Last year earnings were far worse—only $2.4 million, a minute 0.45% return on $535 million revenues.

Now Grant is facing a May 8 proxy battle led by former commodities broker Neil Leist, 34, who is also suing American for libel over a letter to creditors alleging that Leist was "overextended financially" and involved in a government investigation. The 56-year-old Grant, a former Navy pilot and Textron executive, is fighting as if the prize were Exxon. "Leist is utterly irresponsible," he fumes, looking over a list of the dissidents' recommendations such as hedging flour prices in the futures market or moving the company to New York. "We use the futures markets," he contends, "just as much as ITT, Continental or anybody."

Grant's 12-year commitment to American has given him temporary high blood pressure, as well as $35 million in debt, incurred to help fund an $85 million capital spending program. Interest charges alone hit $6.1 million in 1980, or $2.85 a share, leaving only 85 cents for earnings.

"Once I got into it, I just went farther and farther until I was too committed to get out," laments Grant. "My son Rob calls American Bakeries 'Dad's Vietnam.' "—**Larry Marion**



Grant of American Bakeries
Once you're in, it's hard to get out.

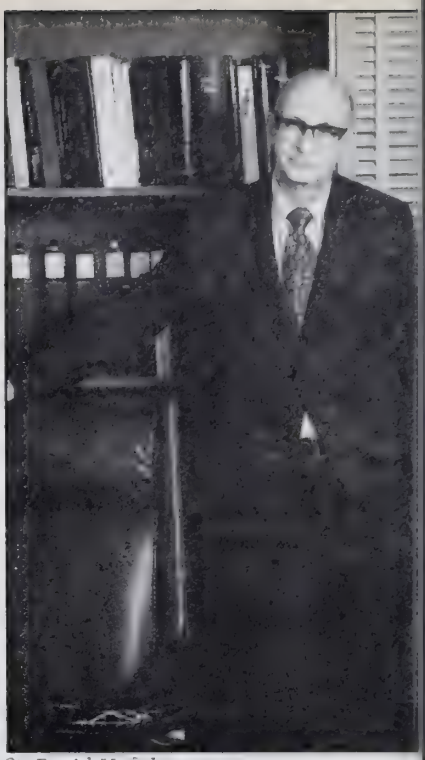
Dare to be cautious

Nobody can accuse William Haselton of grandiose expectations. The new chairman of $2.8 billion (sales) St. Regis Paper Co. is spending $700 million over 3 years—$228 million in 1981 alone—to improve profitability by expanding the high-margined paper operations that produced 75% of last year's $256 million pretax profits. His goal? Boosting return on equity from its current 12.7%, to above 15% by 1984.

Haselton, a 28-year career executive at St. Regis who has been CEO since 1979, succeeded retiring Chairman George Kneeland last month. Edward McMahon, 56, who was executive vice president-operations, was named president and Malcolm Hopkins, 53, chief financial officer.

"It would be an error to set your goals so high you can't get there," says the 56-year-old Haselton solemnly from his spacious office in midtown New York. "Nothing encourages a management more than to aim at a goal and make it. We are seeking credibility."

Charisma is another matter. St. Regis stock, recently around 38, has bumped



St. Regis' Haselton
Fifteen percent would not be bad.

along near book value for years, though paper operations—particul the high-margined newsprint busine are doing better, margins were sque last year in nearly every St. Regis sion. Rising oil costs are forcing the c pany to convert some mills to coal, wl could cost up to $70 million per mill; St. Regis has had to whittle down year's hopes for timber and construc because of the slump in housing, wl accounts for 13% of sales. That switch, because as recently as late Jan the company was giving Wall Stre rosy scenario for housing. Now, Hase sighs, "Anything to do with solid wo dismal."—**Van Wallach**

Smelling like a rose

In the exodus of job-seeking ex-Ca ites from Washington over the past months, outgoing Securities & Excha Commission Chairman Harold Willi has landed a real plum. Williams head up the $1.5 billion J. Paul G Museum, which will probably be the ond-largest foundation in the world (a the Ford Foundation) when Getty's tate is settled later this year.

The 53-year-old Williams, who been dean of the business schoo UCLA and chairman of Norton Simo addition to heading the SEC, calls new post "certainly the greatest nonp it job around." The Getty founda won't be involved only with handing grants. Williams and his staff will use income from that $1.5 billion to s and run their own projects, either al or as joint ventures—as well as runr

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Milan is just one city Swissair serves in Europe.

Ex-SEC Chairman Williams
Grabbing off a plum.

the lavish Getty museum which opened in 1974 in Malibu. Says Williams: "I think, when you see what's happening to government funding of the arts, that the Getty will make the most significant single contribution to the arts in this decade—maybe in the balance of this century."

Any power-loss regrets? "The SEC is not an easy thing to walk away from," says Williams. "It wasn't just an isolated incident in my life. The problems were ones I cared about, and I'll continue to speak on them."—**Thomas Baker**

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The secret life of James Benham

"I am not one of those people who predict the collapse of the banking system," says James Benham solemnly. "I am one of those people who say it *could* happen." Not surprisingly, Benham's $1.2 billion, ultraconservative Capital Preservation Fund in Palo Alto, Calif. is 100% invested in U.S. Treasury securities.

That's by day. By night, Benham and his president, Paul Robertson, and the fund's attorney, Dent Hand, are considerably looser as members of a 20-piece jazz band they founded called, appropriately, Full Faith and Credit. Benham's fluegelhorn player, Ray Brown, used to play with Stan Kenton, and trumpeter Bob Doll played with Buddy Rich. Last year the band cut its first album, featuring a fluegelhorn solo by Benham on a cut entitled "Fast Bucks." The album is now number 25 in airplay on the country's 700 jazz-format radio stations.

"I don't want to be messing around with anything less than the best-quality paper," says the 45-year-old Benham. His original Capital Preservation Fund is 60% in Treasury cash management bills (securities the Treasury offers to tide itself over for short periods), where "the yield is far juicier than for the T bills," says Benham. The rest of CPF and all of CPF II are in repurchase agreements.

But what about all that yield he's s ficing? (In the fund's last fiscal yea return was 10.91%.) Says Benh "We're trying to provide safety an quidity first. Some people are quite s fied to have their money in the safe Treasury bills regardless of the rate few riffs once in a while are fine— only at night.—**Steven Flax**

All that glitters

Gordon McLendon is trying not to into his radio voice as he describes investment possibilities of the no script gray pebbles in his hand, but habits die hard. "Titanium," he int in his rich, deep voice. "Without it, present standard of living would be possible to maintain."

Overstatement? Perhaps. But Mc don, 59, always had a flair for the dra ic. After making his name and fortur radio—first in the Forties and Fiftie creating historic sportscasts as "The Scotchman," later as an inventor of 40 formats—he started selling his 1 dio and TV stations in 1968. Since t he has been figuring out how to get best return on the $100 million-plus t brought him.

The latest answer: metals—cop zinc, titanium, germanium, anytl needed by industry. Now radio's su showman is metals' supersalesman the author of a book with the restrai (for McLendon) title of *Get Really Ric the Coming Super Metals Boom.* "Gold silver make a nice insurance policy aren't essential to our way of life,' says. "Without manganese, you c make bits to drill for oil. Without alu

Benham of Full Faith and Credit
All that jazz, and all those repos.

McLendon, daughter Jan, titanium neckl
Heavy metal.

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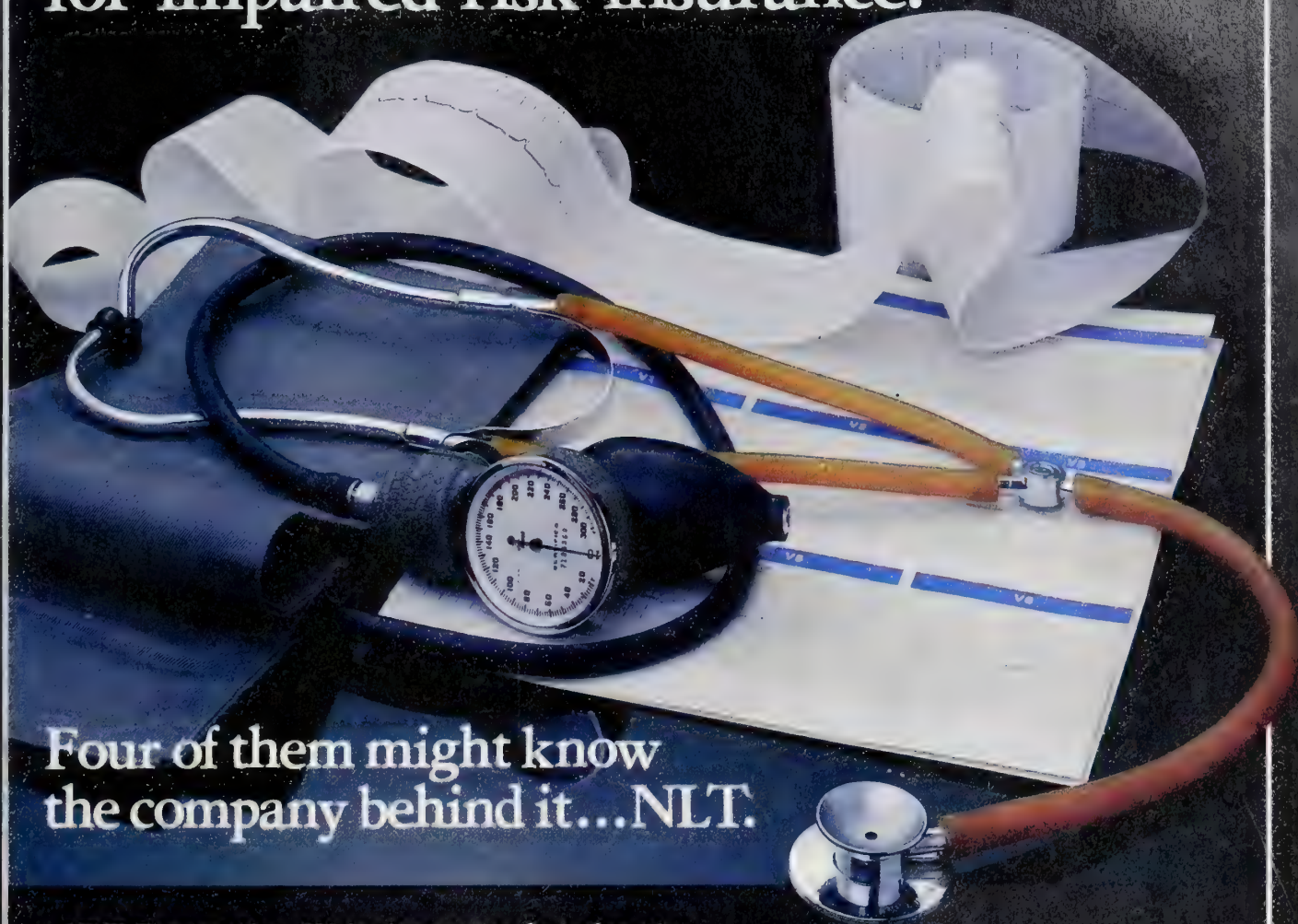

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num, try making an airplane."

With Fluor paying $2.6 billion for St. Joe Minerals and Sohio paying $1.8 billion for Kennecott, McLendon is right in step with Wall Street—maybe a step ahead. But buying the commodity is a lot riskier than buying the stock of the companies that produce it, and strategic metals are rife with opportunities for small investors to get burned. McLendon concedes as much. Until March, when Bache began offering strategic metals to retail clients, the only way to trade was to deal directly with brokers—who often were agents of the mines. Says McLendon, "Some of them can't even spell the names of the metals they're selling."

But then, why should anyone take investment advice from The Old Scotchman? Shrugs McLendon, "People ask me if just reading up qualifies me as an economist. I figure an economist is anyone who has a good sense of the present value and future possibilities of money."—**Anne Bagamery**

Full steam

Back in 1978, when U.S. shipyards settled their long cost overrun disputes with the Navy, Tenneco's Newport News Shipbuilding subsidiary could have collected up to $400 million in claims. Instead, it settled for only $200 million and later got escalator clauses in existing contracts for nuclear aircraft carriers and submarines.

That has kept Newport News' relations with the brass smooth and Navy work profitable. In March it paid off: the Navy awarded a $1.3 billion contract—equal to over one-third of current backlog—for three new Los Angeles-class nuclear submarines. The contract was awarded without competitive bidding so the Navy could make sure that General Dynamics Corp.'s Electric Boat division of Groton, Conn., the only other builder of that class of subs, would *not* get it *(see p. 199)*.

When Edward Campbell, Newport News' 53-year-old president, took command of the 95-year-old yard in January 1979, it was listing badly. Return on average net assets in 1978 was a scant 3%; pretax income was only $14 million on revenues of $733 million. As it turned out, though, Campbell was in the right place at the right time; in his first year, return on assets climbed to 8% and income jumped to $33 million on about the same revenues.

Newport News' Campbell
Peace is wonderful.

Luck? "This is a cyclical business, but the cycle didn't have anything to do with this result," snaps Campbell. "We just decided we wouldn't go after any more unprofitable contracts."

For one thing, this meant getting out of building unprofitable commercial ships for now, despite a $250 million yard expansion completed only five years before. Since then, Newport News has concentrated on what it can do better than anything else—Navy shipbuilding and military and commercial repair and rebuilding. March's contract was some billion-dollar icing on the cake.—**Jon Schriber**

Ars gratia pecuniae

As a freelance researcher 12 years ago, Judith Selkowitz was asked to evaluate a "Raphael" that a collector was planning to buy. She spotted it as a phony, saved her colleague $2 million and decided to go into the art consulting business.

It has been profitable. Through Judith Selkowitz Fine Arts, Inc. the former Fulbright scholar has such clients as Citibank, Atlantic Richfield and IBM for whom she provides anything from cafeteria posters to "total art," top to bottom, for a 50-story skyscraper at fees up to $75,000.

Good art doesn't come cheap these days. The total cost of acquiring "decent art" for the average executive floor is now $30,000 to $50,000 per 30,000 square feet, Selkowitz says. A single good watercolor runs $1,000; well-known contemporary artists like David Hockney command $50,000 and up per painting.

Is it worth it? Occasionally it's a good investment. Ms. Selkowitz cites the example of a Helen Frankenthaler painting she got for a client for $15,000 six y ago. It is now worth $45,000. In anc case, a $7,000 Fairfield Porter has so in value to $70,000 in just seven y Those windfalls are few and far betw though, so Selkowitz doesn't push investment angle. Neither, she po out, are the tax advantages of a corporate art collection substantial, less the company plans eventuall donate it to a museum.

Instead, according to Selkowitz, biggest attraction of expert advic

Art consultant Selkowitz
No phony Raphaels.

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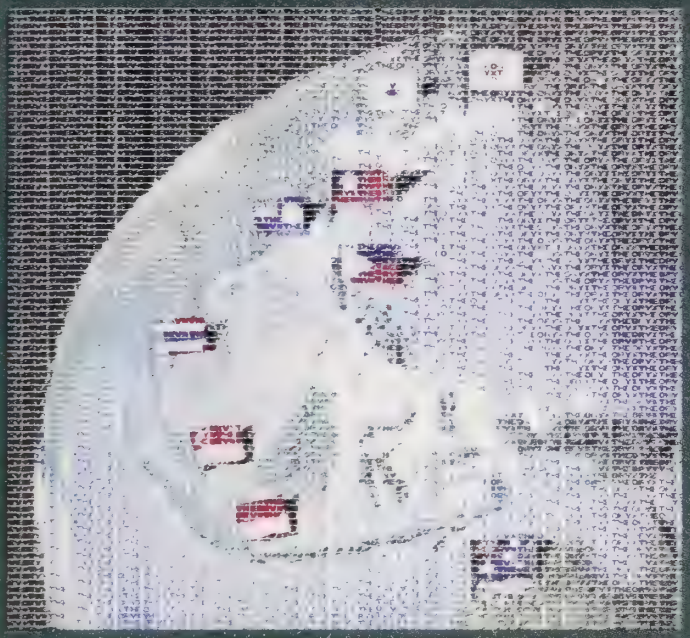

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that "we tell a client if something is overpriced. If you're spending that much, it's nice to know that it's worth the money."—**Carol E. Curtis**

Enough is not enough

Ever wonder why these are such palmy days for the lawyers? Consider the 11-year-old "dumping" suit brought in federal court by Zenith Radio Corp. and National Union Electric Corp. against 22 Japanese electronics companies (as well as U.S. companies Sears and Motorola).

So far, the case has involved literally tens of millions of documents and hundreds of thousands of pages of legal briefs, including a 17,000-page final pretrial statement by the plaintiffs. Seven judges have presided over it at various times—two of whom died during the proceedings.

All that was just the warm-up. Believe it or not, the case has yet to go to trial.

Nor will it, if U.S. District Judge Edward R. Becker of Philadelphia has his way. In a decision Mar. 27 (that itself ran to 587 pages), Becker said Zenith and National Union had not even proven the case was worth trying. "The plaintiffs have buried us in an avalanche of paper," complained the exasperated judge. "But they still have not shown any significant probative evidence of a [dumping] agreement." Apparently what they did, the judge said, was to extract "whatever could be construed as suspicious" from millions upon millions of documents copied and inspected in nine solid years of pretrial discovery.

Enough, though, is apparently not enough. Zenith is appealing what it calls Becker's "flagrant error." The case may well go on and on.—**Jay Gissen**

OTIC's Roberto Riva (left) *and Giorgio Laurenti*
A display of good timing.

"You want? You don't want?"

"In this country, the good properties go very fast," says Italian-born, New York-based Giorgio Laurenti, 35. "Much business is done on the telephone, right away. 'You want? You don't want? Good-bye.' But in Europe investors to ponder for months."

That presented a problem when renti and Roberto Riva, 41, set up sh the U.S. in 1974 as OTIC Corp. (C seas Trust Investment Capital) to s out American real estate for foreign vestors. At first they were advisers small commission, dependent on renti's contacts and a friendly S bank. But the swift pace of U.S. busi passed them by so often while their ropean clients were thinking it over the partners hit on the logical—and itable—solution: They started buying most likely properties themselves, ting 10% down, benefiting from the day delay until closing and then carr the properties—on borrowed mone necessary—until they got a yes f overseas. Since 1974 they have "flipp about a quarter of a billion dollars' w of real estate.

Now the time may have come for other display of good timing. Ask l renti about new money policies in W ington: "Ah! That is very interest Our clients can now put their money Swiss bank, where it can earn high m ey market returns without being ta That is difficult to compete with. have to become very creative."

Creative? OTIC has bought a sq mile of raw land in Boca Raton and acres in the free trade zone near Mia airport for development and sale as bu ing lots—to *American* builders. Such bitious undertakings need lots of mo and years to work out, an odd mov you're waiting for a temporary air po in overseas business to pass. Not so though, if the air pocket threatens t permanent.—**Harold Seneker**

U.S. District Judge Edward R. Becker
On and on and on.

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Personal Affairs

Edited By William G. Flanagan

Haven help us

The U.S. Treasury Department is becoming increasingly antsy about corporations and individuals squirreling cash offshore to avoid taxes. "It is clear that the use of tax havens by U.S. taxpayers is significant and is growing," states a recent Treasury Department report entitled "Tax Havens and Their Use by U.S. Taxpayers."

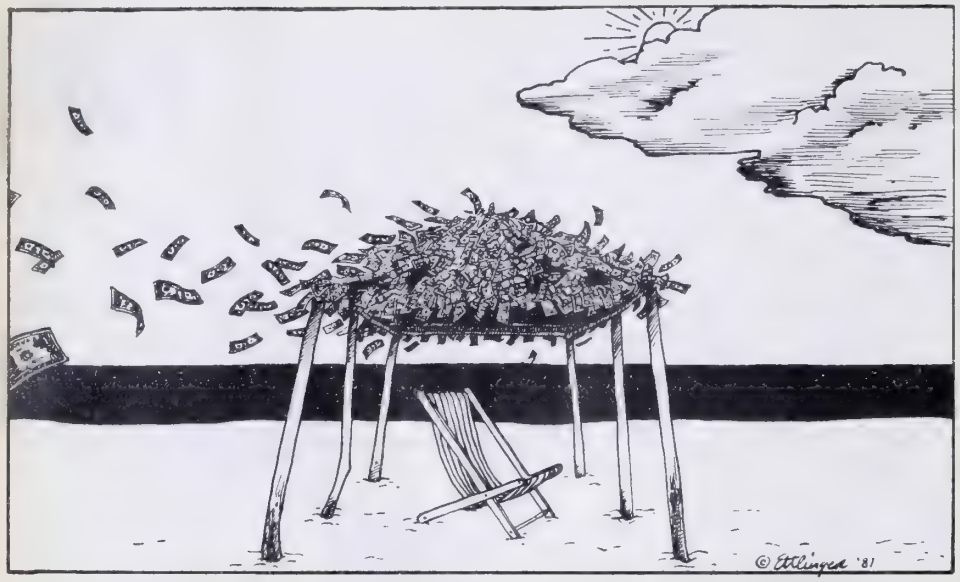
The report points out that there are scores of schemes being peddled throughout the country, which purport to be "legal" means of funneling cash offshore. Some involve "double trusts," or elaborate loan schemes involving banks or corporations set up in the Bahamas, the Cayman islands, or elsewhere. (There are 16 countries classified as tax havens, ranging from Antigua to Switzerland.) If you are contemplating setting up an offshore tax haven, here are some things to bear in mind, gleaned from the 235-page study.

- No matter how foolproof or legal the tax-haven scheme sounds, it's probably *not* valid in the eyes of the IRS. If the agency finds out about it, and can get the appropriate data together, it's highly unlikely that the scheme will hold up. Notes Richard L. Kaplan, an assistant professor of law at the University of Illinois and an expert on international taxes, "If the IRS finds out about any given scheme, it already has the statutory authority to act. Most of the schemes don't work at all."
- The IRS is not above using dirty tricks to obtain data on taxpayers using foreign havens to hide money. Agents have monitored mail from Switzerland, for example, to find U.S. taxpayers with numbered accounts there. (They traced the mail delivered to the U.S. Post Office by the postage meter codes used by the Swiss banks.) In the first instance, of some 8,500 taxpayers using Swiss accounts, 168 were selected for audit. The audits resulted in $2 million being assessed in taxes and penalties—but most of that was *not* attributable to the foreign bank accounts. (In fact, they discovered that only about one-fifth of the taxpayers used the Swiss accounts as depositories for unreported income.) No prosecutions resulted. A subsequent "mail watch" identified another 21,500 taxpayers with Swiss accounts, but the IRS decided not to instigate audits.

The "Bahamas Project," "Operation Tradewinds," and "Project Haven" were other, more successful snoop projects where paid informants were used to get data on taxpayers using offshore accounts. Hundreds of criminal prosecutions resulted. In one instance, the briefcase of a Bahamian bank official in Miami was snatched and its contents photocopied while he was being entertained by a female informant. Included in the documents were the names of U.S. clients of the bank. Investigations and criminal actions followed. The courts ruled that the defendants' rights had not been violated.

- Most offshore tax schemes go undetected. It is difficult for the IRS to trace many of them. And, even if the agency discovers them, "they can't get any information because they are located in the Cayman islands or elsewhere, and the countries will not allow the records out," says Kaplan.
- The Treasury is contemplating truly draconian measures against havens, even though it already has plenty of statutory ammunition. Its problem has been in securing data. "It is difficult, if no possible, to obtain admissible evid connecting the U.S. taxpayer wit income item in [tax haven] cases," the report. Some of the more d measures being considered include hibiting U.S. banks from condu business in a designated tax haven; hibiting U.S. airlines from flying designated tax haven; treating made to U.S. taxpayers from desig tax havens as ordinary income.
- For individuals with legitimat come, the advantages of tax havens be questionable. "I compare it t younger woman," says Kaplan. "Th who has made it considers the y woman, or a tax shelter, as one o accoutrements of success. The fact the tax rate is no longer 70% is not to stop him. So long as the tax ra over zero, there's incentive."

Moral: If you are interested in a shore haven, go through the Tre Department's recent report. It may cool your ardor—or at least let you k where the dangers lie.



The ultimate desk

If you are like most executives, would sooner part with your teeth than that favorite des yours. But take a good look at it probably easy on the eyes, makes a statement about you, but is the dar thing really functional for the 1980s

Bruce Burdick, a San Francisco-b designer, recognizing that electr equipment, not quills, inkwells an per, are the tools of the modern ex tive, set out several years ago to cre modern, functional piece of office f ture that would suit today's mana The result is a bit jarring, and a fa from the Louis XIV model that may been your aspiration.

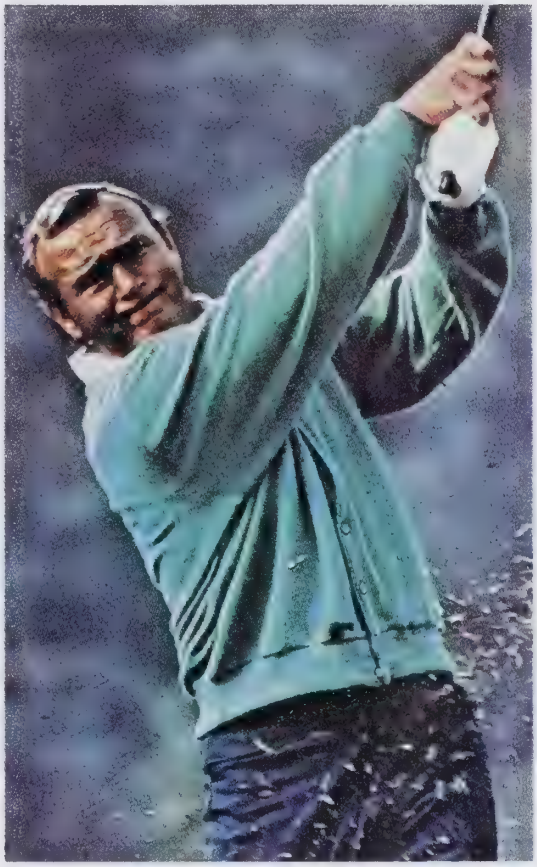
"This desk," says Burdick, "repre the difference between a good pa running shoes and a pair of old snea It's a piece of performance equipme workbench for knowledge workers."

The design, which cost the man turer, Herman Miller Inc., $500,00 develop, is strikingly simple, even ingly so. One or more highly poli hollow aluminum beams form the b bone of the "workbench." Surfaces trays are cantilevered above or belo beam. Wires for the electronic co nents are easily tucked on the unde of the beam. The various stands, tops and conference table tops snap the beam almost any way you want. know of at least 20 ways of puttir together," says Burdick. "It's like a er large erector set."

The beams come in 10-, 7- and foot sections and can be placed in T, L shapes to suit your own work h and environment. The average

Palmer and Rolex. Masters of style.

There's that magic moment in the quiet hush, the dimpled ball poised proudly on its tee. Then a sudden blur of concentrated force cracks and the streak of white arcs downcourse, lofts long and straight, bounces once, twice, and rolls to a precision stop. Then there's the famous grin, the squint, the cant of the head... no one else plays the game quite like Arnold Palmer.



It's more than the multiple championships in the Masters, the U.S. Open, the British Open, the Ryder Cups or the Player of the Year awards. It's more than the private jets, the lucrative entrepreneurial ventures and the television commentary.

It's style. The Palmer style. The no-less-than-heroic play. No single person has done more to move golf from the elite to the masses. Arnie's Army is no misnomer. His fans are legion and he is legend; he's reinforced his reputation every step of the way.

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Personal Affairs

ranges from $2,300 to $4,400-plus, depending on the configuration and types of surfaces.

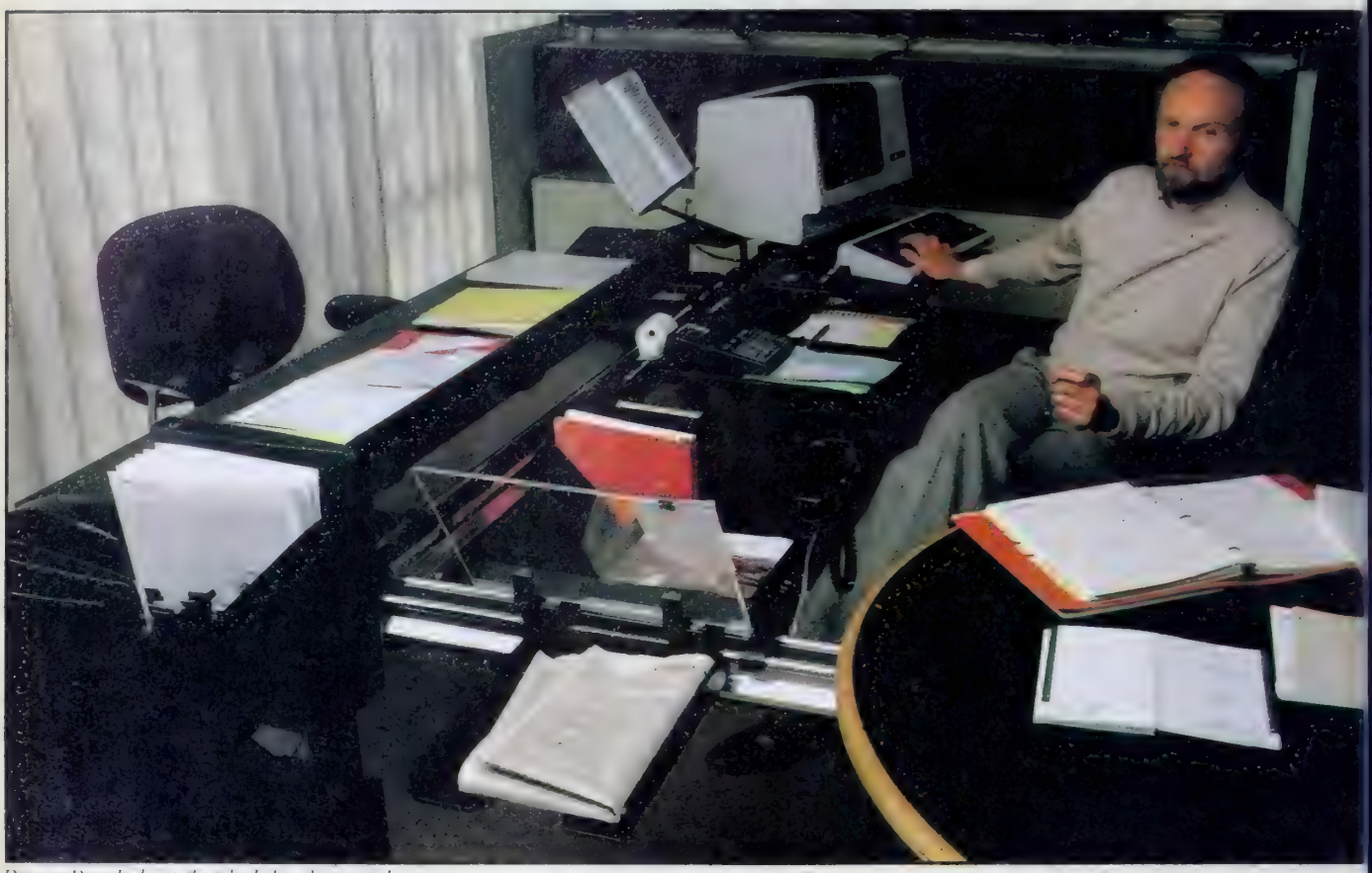
Burdick's desk allows room for CRT terminals, personal computers, calculators, dictation equipment, telephones, microfiche viewers and reading stands. Burdick has also allowed for a moderate amount of book and paper shuffling, as well as a stand for a plant or two.

"One area in front can be for the morning mail," says Burdick. "Behind, you might put a project table for stuff that gets attention only a half hour a day, and can be left sprawled open. The idea is to expose what you are working on, not get into this in-the-drawer, clean desk situation. That's just not reality."

Production of the desks began last month, and Burdick says that manufacturer Herman Miller will ship some 5,000 desks in 1981 alone. Waiting time, at present, is at least two months.

Burdick admits that few top CEOs seem eager to part with their massive, outdated symbols of power and status just yet. "But there is a minority who are destined . . . ," says Burdick. "I thin are designing for them."

Another electronic desk, unrelat Burdick's and more conventiona style, is available from Hamma Schlemmer, the N.Y.-based store spe izing in offbeat and expensive Billed as the "ultimate executive des home or office," it comes complete burled elm top, sunken color-TV set, phone and index, call button, digital culator and clock, AM/FM radio and sette player, sharpener, paper shre and cigarette lighter—among other gets. For further information writ Hammacher Schlemmer, 145 East Street, New York, N.Y. 10022. Co $8,950.—**Gerald Odening**



Bruce Burdick at the desk he designed

Room for electronics, the mail, long-term projects, and a plant. Clutter is in.

"Outward bound" with a .45

As the number of violent acts against businessmen has increased—and, according to the Conference Board, "terrorist actions against corporate victims are showing an alarming upward spiral"—more and more are seeking professional training in how to protect themselves and their families. Regrettable? Maybe. But the number of schools that cater to such executive trade is rising. Their stated purposes are to better equip individuals to defend themselves, to avoid potentially dangerous situations, to administer first aid and to learn evasive driving techniques.

FORBES recently paid a visit to one of the oldest and largest of these schools, to get an idea of who runs them, what is taught and how they operate. It is called Cobray. The biologically impossible name—combining the cobra and the moray eel—tells something about the school. It's more like a military training camp, and it borders on the wacky.

Cobray is headquartered on 66 rolling, wooded acres about 25 miles northwest of Atlanta, in the community of Powder Springs. And it is no executive holiday camp. At $300 per day, during the ten-day basic training period students are instructed in the use of shotguns, h guns and rifles. They are taught ho run a roadblock and make a "bootle turn" at the wheel of a car, how to p a knife thrust or a swipe with a bro beer bottle, how to look for danger how to be prepared to meet it. The f aid training covers such things as set a broken leg, administering heart r sage in case of heart attack and helpi choking victim. There is also instruc in the basics of defending your ho coping with kidnappers' demands dealing effectively with law-enforcem officials.

Cobray's founder, Mitchell L. Wer III, began his career with the OS

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VO
Enjoy our quality in moderation.

Personal Affairs

World War II, operating in the India-China-Burma theater. He was later active in a number of clandestine operations in Latin America, Korea and Indochina. Co-owner Ed Wandel fought with the U.S. Marines in Vietnam and in the cavalry unit of the Rhodesian army under the Ian Smith government. Another instructor, Colonel Morgan Smith, a retired Army officer, developed the Special Forces' unconventional warfare school in Panama. Students dress in camouflage fatigues, address their instructors by military titles and spend considerably more time on weapons training than on other facets of instruction.

"Some 90% to 95% of our students are professional people," Wandel says, listing on their application forms such occupations as physician, attorney, businessman and executive.

But the class that went through the basic course early last month, as it happened, contained no identifiable executives. ("Atypical," Wandel said.) Of the all-male class of ten, ranging in age from the mid-twenties to the late forties, four were police officers, one was an armored-car driver, one a courier, one a quasi-bodyguard and one listed his occupation as retired. Two asked not to be identified even by occupation. Only one of the class members was a veteran.

All told, Cobray says it graduates about 120 persons a year from its basic courses, another 100 or so from its police courses and about 75 a year from the advanced-weapons courses.

In return for the $3,000 fee, the student receives the instruction, practically all the ammunition he can fire (no minor item at today's costs), the agony of stiff muscles, mosquito and chigger bites, and camaraderie. Since Cobray does not offer lodging or meals, except for lunch usually eaten on the run between classes, most of the students pair off to share rooms in nearby motels.

Classes begin early and run late, usually until dark or later. By the time the students finish the course, they have the cohesiveness of a Marine platoon that has just survived Parris Island.

Not surprisingly, schools like Cobray have their critics. They have been accused of being training grounds for mercenaries, domestic and foreign; and for giving succor and expertise to such extremist groups as the Ku Klux Klan. Cobray vehemently denies such allegations. Cobray is also criticized for its flat insistence that a gun is a businessman's—and businesswoman's—best protection. The average businessman, critics point out, needs to know a lot more about defense and avoidance tactics than he does about stalking an enemy or handling automatic rifles.

If Cobray's Mickey Mouse military environment and preoccupation with weapons are excessive, some specific survival tips make sense:

- On traveling. If flying first class, sit as far to the front as possible, on the left side—nearest the exit. In the back of the plane, sit over the wing. In the event of an emergency landing, keep your feet off the floor, despite what the flight attendants advise. Airline seats can break loose and you want to avoid broken legs. When checking into a hotel, ask for a lower floor with a room near a fire exit.

Cobray student during shotgun training
Out of pinstripes, into fatigues.

- On first aid. Learn cardiopulmonary resuscitation. It's as useful in a boardroom as on a battlefield.
- On handling a car. Always use seat belts—not only in case of a crash, but to help you stay behind the steering wheel in order to handle the car better during defensive maneuvers. Beware of handprints or fingermarks around the hood area and rocker panels so you can determine if someone opened the hood or slipped under the car.
- On avoiding kidnapping. If you are driving and think you are being followed, proceed at a normal speed. At a convenient point, make a sharp 180-degree turn, jumping medians if necessary, and speed off in the opposite direction. Or if there is a suspicious-looking roadblock ahead of you, turn around and drive the other way.

There are a number of security firms that teach defensive driving techniques as well as self-protection. Among are Burns International Security vices, Briarcliff Manor, N.Y. and S School of Defensive Driving, Sc ville, Mass.—**Kenneth F. Englade**

All in the family

Shirtsleeves to shirtsleeves in generations is the saga of family-owned businesses. Th son is that often the genius, the lu the sheer determination of the foun not necessarily transmitted to wife, or grandsons. There can be a fatal la managerial talent at the top and the pany eventually founders.

René Plessner runs an executiv cruiting company that finds execu specifically for family-owned busine He recently completed a survey o hiring practices of such firms. The those family companies go about fir talent, what they look for, how compensate and how successful the in their hiring—all these differ fron experiences of nonfamily compani you are in a family business, or are templating joining one, the findin Plessner's study should prove usefu

First of all, when it comes to rec ing, family companies are much likely to use newspaper ads, friends employment agencies than nonfa companies (which are much more a promote from within) and also to executive search firms. Implied he that family-owned companies are disciplined in hiring, less scien Newspaper ads, which are generally resort, are not very efficient and are by nonfamily companies in only a 43 cases out of 100. But to find blood, families will take to the pape 83 cases out of 100.

Which recruiting methods pay best? It should come as no surprise those suffering next-in-lines that s ping at home, promoting right within the company, is the best w go. Both family and nonfamily co nies in Plessner's survey indicated in-house recruiting proved the most cessful method in the long run.

What are the pros and cons of wor for a family-run company? The fa operations feel they can offer se compensation advantages. One is b profit-sharing and other perqui (most commonly a car). They also that there were certain "environme pluses with a family-run firm—nan more decision-making authority, a ily atmosphere and executive longev

The nonfamily business, on the c hand, has it all over the family busi when it comes to base salary, stock tions and bonuses. And it can prov more professional atmosphere and ge ally a better location for work.

What do businesses look for

"A dash of class."

Next time you see an elegant imported world-class sedan that seems just a bit roomier than most, look again. It may be a new Ford Granada instead.

Beneath Granada's exterior styling are some engineering ideas to cheer the adventurous.

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34 EPA EST HWY **23** EPA EST MPG

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For the first time in Granada you get rack-and-pinion steering as well as MacPherson struts and steel-belted radials to help you deal with the harsh realities of the open road.

The new 1981 Granada is smaller on the outside than last year's model, but despite its high mileage ratings, Granada is still an American mid-size sedan, with American mid-size room.

It's a beautifully thought-out combination of European grace and American space.

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Personal Affairs

when they are hiring? Both family and nonfamily businesses cite four basic traits as most important: being honest, being a self-starter, having "people skills" and communicating well. Beyond those traits, however, the family-owned company also weighs heavily company and personal loyalty and creative skills. The nonfamily business places more emphasis on analytical skills and very little on personal loyalty.

The rub is, however, that while both types of companies know what they want, they usually don't find it. Honest self-starters who communicate well and are good with people are not that easy to come by. Oddly enough, family-owned companies reported a success rate of only 5% when it came to the desired level of honesty. The success rate was only slightly better for nonfamily companies.

If you work for a family-owned company, what are your chances of becoming a board member? Slim. The boards of such companies are usually small—five or fewer in almost half the cases, seldom more than seven. Most nonfamily companies—which are typically public companies—have 12 or more directors. And family-owned concerns had two family members on the board in 44% of the cases; three or more in 45% of the cases.

Executive recruiter René Plessner
Finding talent that will please papa.

Gracefully done

The Americanization of Monte Carlo, a process that really got rolling a quarter-century ago when Grace Kelly stepped off the silver screen and on to the throne of the vestpocket fairyland of Monaco continues apace. But now it is American games of chance that have enraptured Monaco.

American-style gambling has been slow coming to Monaco, for a number of reasons. Operators of the staid, magnificent belle époque casino that majestically overlooks the Mediterranean dared not rankle their traditional clientele by permitting loud, polyestered cowboys to holler home that "eighter from Decatur." In the casino's heyday, when the titled and the privileged wore evening dress to squander fortunes amassed over generations, the loudest sounds heard were the clicking of the chips and the clacking of the roulette ball.

In 1975, however, gambling in Monaco underwent a rude reawakening. Loews opened a Hiltonesque hotel hard by the traditional casino, and offered strictly American games there—slot machines, blackjack, craps and American-style roulette (European style has only a single zero and slightly better odds).

While the traditionalists sniffed in the hushed salons, Las Vegas went on next door. Planeloads of Americans invaded the principality, stuck their open-necked heads in the doors of the cathedral-like casino, then hustled next door to drop their bucks in more familiar digs.

Finally the management of the casino, the Société des Bains de Mer, which also runs the Hotel de Paris, the Hermitage, the Sporting Club, etc., cracked. They went American in a big way, while still trying to preserve the best European traditions. An American room was opened, and English-speaking croupiers and dealers hired (some came from the Loews next door). The entrance fees and the need to show passports were dropped. The dress code was relaxed—ties are no longer required; women may wear slacks. And the craps and blackjack tables came out of the inner sanctums and into a magnificent, fin de siècle salon. Slot machines were rolled out onto the Oriental carp

Texas belle on a roll at Monte Carlo casino
No cherubim fell from the atrium.

Through all this, the traditional E pean games were not abandoned, were the requirements for play rela The European Room costs a few franc enter, there is a dress code and the ac is on *punto banco*, *trente et quarante*, carat and European roulette tables.

And, of course, for the exceptional tor, there are the private salons. On reserved for international wheeler-de Adnan Khashoggi and his entou whenever his yacht pulls into the har

Much to management's surprise, Americans who have been getting t instant lines of credit at the casino about an hour you can get a line) have been all that boorish. No terra cotta ch bim have been knocked from the atri

Most recently, the government e opened its arms to Texans; the ann Bal de la Rose was themed the Yel Rose of Texas Ball, and Houston oil aires jetted over just for the fete.

Now the Société des Bains de Mer begun offering various junkets for h rollers from the U.S. Gamblers who establish credit lines of $10,000 $25,000 get a free round-trip plane tic plus a free hotel room at the Hermit for six nights and some meals. If y credit line is between $25,000 $50,000, you will get one ticket, acc modations for two at the Hotel de P for six nights, all meals and beverage you buy a second airline ticket, its c will be refunded to you in chips.

If you establish a line of $50,000 more, you get one first-class or Conco ticket, plus accommodations, meals beverages. The cost of the second tic will be likewise reimbursed with ch In addition, gamblers can tack on to th junkets, at additional cost, travel and tel packages to Paris, Rome and Floren

Bonne chance!

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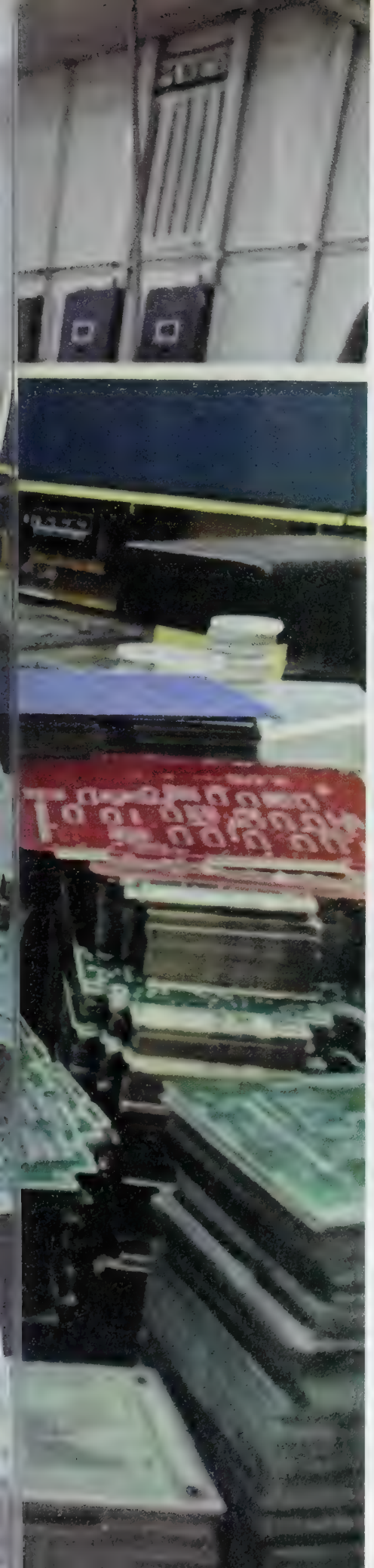

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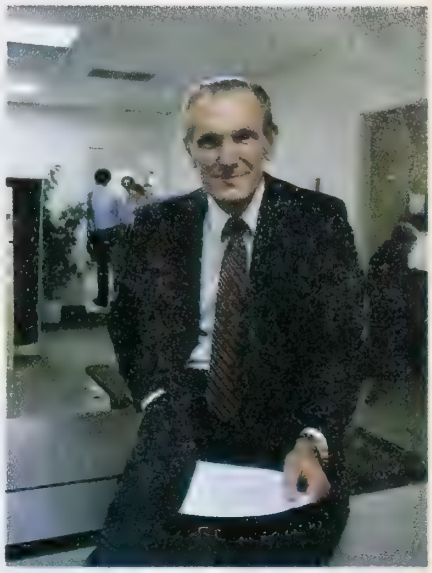
Through a wide range of financial and business services, Control Data helped Automata grow tenfold and create 150 new jobs in five years.

More than half of all technological innovations come from small companies. They also provide the greatest number and diversity of jobs, including positions that are important for minority employment.

So when Mohammed El-Ezaby, a young Egyptian entrepreneur with a fledgling U.S. company, four employees and an idea for a better electronic printed circuit board applied for a business loan, Commercial Credit, the financial services arm of Control Data, was quick to respond.



"Through its Business Centers, Control Data provides affordable solutions to the problems of small businesses so vital to innovation and jobs. It's another example of how addressing society's major unmet needs is good business."

E. S. Sirbaugh, President,
Commercial Credit Services Corporation

Since then, we have provided an increasing range of services to help Automata become an established electronics manufacturer with sales of $8 million and more than 150 employees. Through a revolving credit plan, the leasing of company cars and three separate equipment loans, Automata has been able to double its business each successive year without putting a drain on cash flow. And recently, when Automata needed an additional $500,000 for expansion, we were able to provide an SBA guaranteed loan.

Today, Control Data is opening Business Centers in major markets throughout the U.S. to provide small business with a wide range of products and services. For a reprint of an address, *"Rebirth of Technological Innovation via Small Business,"* by Control Data Chairman and Chief Executive Officer, William C. Norris, and a brochure describing the other ways we are addressing society's major unmet needs, write to Control Data, HQN11I, P.O. Box 0, Minneapolis, MN 55440.

CONTROL DATA CORPORATION

Addressing society's major unmet needs

Budapest's Vasarcsarnok market (left) *and* (right) *privately owned butcher stall*
No long lines of sullen customers and the beef is only 84 cents a pound.

repressed, depressed Communist Eastern Europe, one nation found at people produce abundance when given their own business.

The Hungarian exception

By Lawrence Minard

THEY TELL THIS JOKE in Budapest: Stanislaw Kania promises peace in Poland if Brezhnev will grant him three wishes:

"It was a terrible wheat year, Comrade Brezhnev. I need 100 million tons of wheat."

"One hundred million tons of wheat, Kania? No problem. You've got it."

"And potatoes: I need 200 million tons of potatoes."

"Just 200 million? You'll get them next week. What else?"

"The last one is easy. I need 5,000 oranges."

"Oranges? Impossible! The Hungarians can't produce them."

In its crude way, that joke reveals the complex reality of the Eastern European Communist bloc, the grouping of 110 million people in six countries that forms the modern Russian empire. In Poland and Rumania *(see p. 131)*, parts of that empire are stagnating at levels of economic and political development far inferior to the capitalist West.

But those who think of the Eastern bloc as one unrelieved mass of repressed humanity have not faced up to the Hungarian exception. Hungary represents a shrewd accommodation to individual initiative under the shadow of Russian tanks across its border with the U.S.S.R. and as many as 100,000 Russian troops on Hungarian soil. Hungary remains solidly an economy where the state owns practically everything. But it also is developing market prices and a second economy in which individuals work for themselves and are rewarded for doing so. Thus Hungary, a small country of 10.5 million people, has become—in the 25 years since Russian tanks rolled in to crush its violent revolution—an Eastern bloc economic laboratory whose experiments have won, thus far, the approval of Leonid Brezhnev himself.

At the Communist Party's 26th Annual Congress in Moscow in February, Brezhnev told the satellites, "It is essential to learn from each other"—and pointed to Hungary as a country with a great deal to teach.

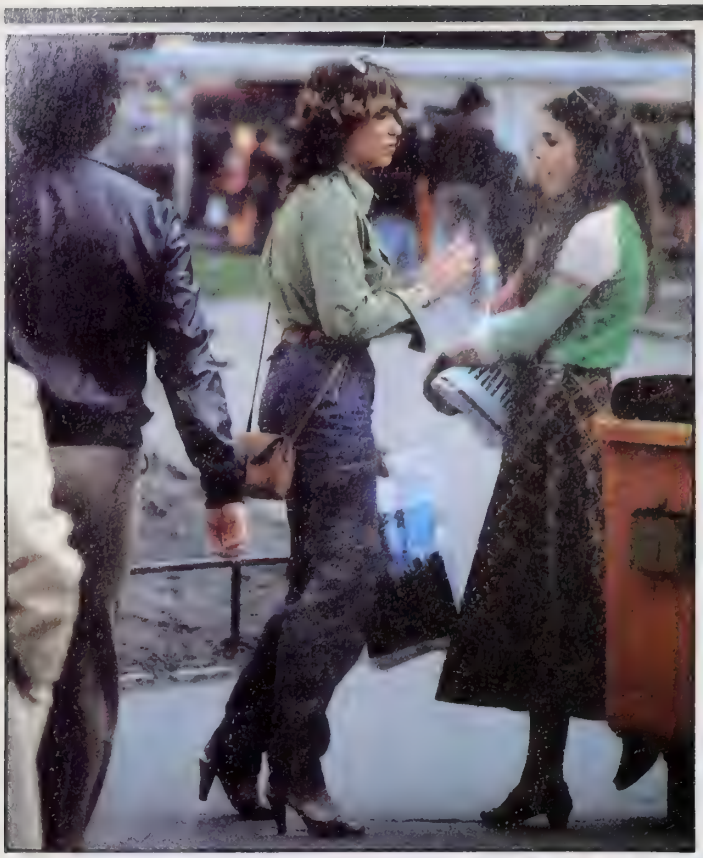
Hungary owes more hard-currency debt per capita than any other Warsaw Pact country, including Poland. But "Hungary is one of the few countries I don't worry about," says an American banker who, in March, helped Hungary obtain a $400 million loan at favorable rates. Hungary, he points out, eliminated its trade deficit with the West last year.

Says a General Motors executive who has had extensive dealings throughout the Eastern bloc: "The Hungarians can produce products equal in quality to anything you can find in the West."

And Hungarians can enjoy them. Do you want Levis? The big Luxus department store on Vorosmarty Square has stacks of them at $33 a pair, payable in forints, not dollars. Do you want the latest punk rock album from The Police? You'll find it at most of Budapest's many record stores. Do you want a high black-market rate of exchange for your Western currency? Forget it: You have to look hard for the black market; and even then the rate is only 15% better than the government's tourist rate (29.57 forints=$1). The restaurants are full of well-dressed, laughing customers, the streets alive, on weekend nights, with the strains of gypsy violins and "Saturday Night Fever."

Think twice before leaving Budapest on a sunny weekend: The roads are clogged with Hungarians heading for their weekend houses at Lake Balaton or their tiny weekend farms that make the country seem as manicured as Japan.

What a contrast to 1956, the year the Hungarians rose up against their brutal Stalinist master, Matyas Rakosi. Dwight Eisenhower, preoccupied with Suez, sent his "prayers" for the Hungarians. Nikita Khrushchev sent tanks and troops and,



Budapest street scenes bottom and left and (below) *the political cabaret Mikroskop* ***Jeans are not black, market and satirists are not in jail.***

at the cost of 15,000 dead Hungarians—and 200,000 more who fled the country—yanked the little country irreversibly back to his side of the Iron Curtain.

The man who called in those tanks and troops is Janos Kadar, now 69, Hungary's leader since 1957. Initially labeled a quisling by his people, Kadar has since won their genuine respect. In effect, Kadar struck a deal with Moscow that is strikingly reminiscent of Hungary's 1867 Compromise with the Hapsburg Empire: Hungary would bend to Moscow's foreign policy and ideological sovereignty in return for a considerable amount of domestic autonomy. The result is a level of economic prosperity and internal political freedom that has become the envy of the Eastern bloc.

Hungarian: "What do you call a person who never eats meat?"

Westerner: "A vegetarian."

Hungarian: "Wrong. A Pole."

There are no lines of forlorn shoppers at Budapest's turn-of-the-century, steel-and-glass Vasarcsarnok food market. The stalls are overflowing with meat, milk, eggs and apples. Last year was a bad crop year throughout Europe, Hungary included. Yet Hungarian farm output increased 2 2%. Hungary not only fed its own people, but exported nearly $2.7 billion worth of its agricultural products.

Judged on the record of socialist agriculture elsewhere, Hungary should be a disaster. The postwar Communist government won popularity by giving lands belonging to the Catholic Church and large estates to the peasants, only to reverse that policy in the Fifties and put 98% of Hungary's 15 million arable acres into big state farms (13%) or peasants' cooperatives (85%).

But at the margin, where irritating food shortages appear in other Eastern bloc countries, Hungary has a secret called the *baztaji* or household plot. Every cooperative member is entitled to his household plot and becomes a *baztalyi*. Using fertilizers and other materials supplied free or at nominal cost by the cooperative, the household plot farmers work these plots in their spare time and pocket what they earn.

They can sell their crops back to the cooperative, which funnels the produce to the public via the cooperatives' market food stalls. Or the *baztalyi* can sell to private grocers, who generally offer better prices—for better quality—than the cooperatives. Through the income from his household plot a typical cooperative member can easily double his $120-a-month basic wage.

Household farmers now count for s 20% of Hung poultry pro tion, 40% of pork produc and over 50% the country's egg supply. The gov ment figures that household plots—w in the cooperative sector—and the 2 lands that are private account for 15 the arable area but 30% of agricul production.

"What we have tried to do with cooperatives is create a symbiosis tween large-scale and small-scale f ing," says Pal Cserhati, a power in Ministry of Agriculture. "Symbiosis an okay word for incentive. The Pole Cserhati sees it, suffer from too m undercapitalized small farms, while Russians have too many huge s owned farms. In Hungary, the s farms and the big cooperatives ha volume production of corn, wheat livestock. But the cooperative meml who must devote 150 days a yea harvesting that wheat or butche those hogs, get to be small-scale farr in their unofficial working hours.

"One of the best advantages of household plot system is that it harn es the labor of the peasant's entire ily," says Cserhati, "a way of getting peasant's wife and children into fields to feed the nation."

It helps, of course, if a nation has g intelligent farmers, as Hungary c Even the state farms are no slouc The Babolna state farm purchased corn-growing knowhow in the early enties and now achieves corn yield 135 bushels an acre, respectable eve U.S. standards.

A man like Istvan Pelikan would ceed in Iowa as he does in Hernad, Budapest. Pelikan, 34, teaches agricul al mechanics at the 3,200-mem 18,500-acre "March the 15th" coop tive, earning about $150 a month. after hours, in a shed behind the t story house he has built, Pelikan ra 20,000 baby chicks annually. When chicks are 50 days old he sells them b to the coop's poultry processing plan

Next to the shed is a 1,500-square-hothouse in which Pelikan is grov 1,700 tomato plants; the crop will be partly to the coop, partly to the pri grocers who periodically visit. Peli says that from the chicken shed and hothouse together, he will gross this around 1 million forints, about $30, Net income, he says, will be aro $5,000 (which he keeps tax-free)—ting this peasant farmer in an inc league with Hungary's best-paid ma ers, and allowing him to install cer heating in his house this year after

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25 YEARS LATER THE BEST MILEAGE CARS IN AMERICA ARE STILL CALLED VOLKSWAGEN

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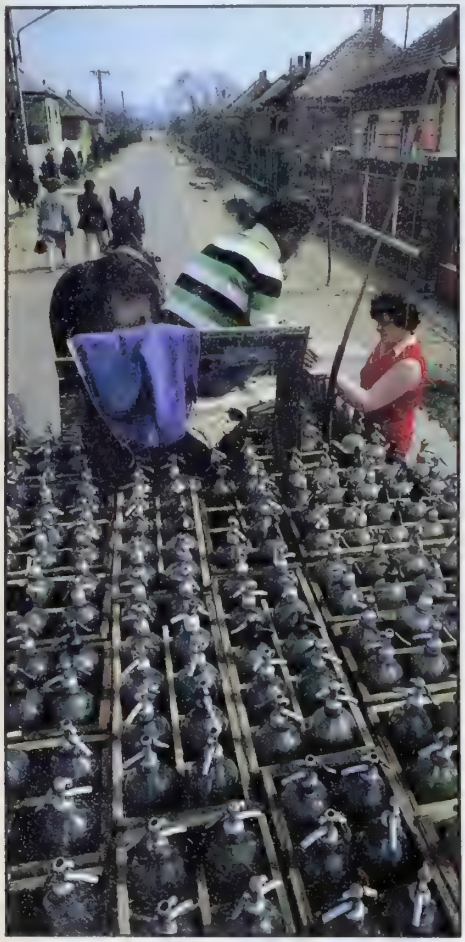
THE POWER OF BALANCE

Peasant women in Galgamacsa (right) *who have just sold produce privately and* (below) *entrepreneur selling soda water in Vereseghyaz* ***Now even the restaurants are going private.***



ing his wife and two sons on their second trip to Leningrad, "the most beautiful city in the Soviet Union," says Pelikan. Speaking through a translator, Pelikan says: "The reason Hungary is doing pretty well today is that people work hard here. We are a diligent people. We consider hard work to be a reasonable thing. But we also expect to be paid reasonably for it." Before Hungary's 1968 economic reforms, says Pelikan, "it was not worthwhile to work hard. This new system has provided wide vistas for entrepreneurial spirits like me."

In fact, the government is trying to "provide wide vistas" for all Hungary's "entrepreneurial spirits." Thanks to the

second economy or *masodikgazdasag*, the country is buzzing with private enterprise. Over 50% of the present housing stock has been built privately—typically by groups of people who form cooperatives to build or renovate buildings, which are then parceled out to the cooperative members.

All this second economy activity adds up to a formidable lever. Ivan Berend, professor of economics at Budapest's Karl Marx University and one of Hungary's best known, most influential economists, says that some 15% of total working hours are accounted for by the *masodikgazdasag*. Yet this activity, says Berend, accounts for an estimated 30% of the population's income. Reported personal savings have climbed from $1.4 billion in 1970 to nearly $5 billion last year, and a top government official says that for tours to such exotic places as Peru and Australia that cost "between 50,000 and 100,000 forints [$1,660 to $3,330], the demand far exceeds the supply." This in a country where the average official industrial wage is only 60,000 or so forints ($2,000) a year.

Given it's size and history, Hungary's success in foreign trade seems even more remarkable than its thriving private sector. Weakened as a result of its ties to the vanquished Hapsburgs, Hungary in 1920 lost two-thirds of its territory under the Treaty of Trianon. Aside from its energetic population, a small (15 million barrels a year) oil industry, some bauxite and natural gas, the country today has virtually no natural resources. It must trade to survive. At around $20 billion last year, Hungary's total international merchandise trade volume was 40% of its gross national product—a higher percentage than that of Japan.

Most of Hungary's raw materials come from the socialist Comecon countries, which account for some 55% of Hungary's trade; the U.S.S.R. alone accounted for 28% last year. The dependence tates many Hungarians but it ha advantages, oil being the best exar Russia sold Hungary 57 million barr crude oil last year, 100% of Hungary import requirement, for a price works out to half of world oil price le In effect, that meant a Russian subsi almost $1 billion.

Attached to the Soviet oil subsidy dictably, were several sturdy strings get the Soviets' oil," says Laszlo Toth, general manager of the $1.2 bi (trading volume) Mogurt trading pany, "you have to sell them s thing." Last year Hungary sold the ets, at bargain prices, over $2.7 bi worth of goods ranging from bauxi buses. Says a young, nationalistic garian planner:

"We don't hate the Russians, w *spise* them. But there is nothing we do. We are completely dependen them economically." Joe Stalin w have liked that.

The Comecon alliance has advant beyond oil, however. Comecon is a ble market. Each year the members and bilaterally agree on product im and exports. Excluding Russia, Co con's population is about 110 mil with Russia it's over 350 millio huge, not overly demanding and pro ed market, on which Hungarian nessmen can depend and over w they can spread their product deve ment and production costs. Thus Ik the famous Hungarian busmaker now accounts for 10% of world bu ports, is content to sell most of its duction of 13,600 buses a year to Co con. Says Toth of Mogurt, whic Ikarus' trading company:

"What Western customer would 7,000 buses yearly in 4 types an variants? Yet our relations with U.S.S.R. are so good that such a deal be done in a single contract." The 3 Ikarus buses Mogurt sells annuall Western customers, says Toth, are cally gravy.

Thanks to the Russian oil, Hun has so far avoided the worst of the O shocks. But starting *this* year, the Rus oil prices for Comecon will be escala sharply. Hungary's oil bill could j 30% this year, and will certainly do by 1985. For volumes over the 1980 le Russia is now demanding full w prices in hard currency or hard goods

To prepare for the shock—to incr productivity and cut production cos Hungary increasingly must turn to West. That is where the technolog But how can a semideveloped soci country compete in selling to the de oped West?

The problem is this: In a cent planned command economy, poli takes the place of prices. The state g

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Istvan Pelikan and his wife tend tomatoes in their hothouse ***Hard work and visits to Leningrad.***

leather to a shoe company, tells it to make 10,000 pairs of shoes and distributes the shoes to the people. The shoemaker does not know the cost of his leather. If they forget that they must toil long hours for low wages, people think they get free shoes.

As long as production takes place inside a closed economy, central planning can work. But 45% of Hungary's trade is with the West and to sell to the West, the Hungarian businessman must know what his raw materials cost. Otherwise he doesn't know how to price his goods. Little, resource-poor Hungary could find itself in the absurd position of unwittingly subsidizing Western customers, even as Russia, consciously and for advantage, subsidizes the cost of Hungary's oil consumption.

Hence Hungary's quiet economic reform or New Economic Mechanism announced in 1968 as Russian tanks rolled into Prague. The NEM decreed that industrial goods and raw materials were to be priced on the basis of what they would fetch if sold in the West: no intracompany subsidies. Consumer subsidies were to fall. Recalls Karl Marx University's Ivan Berend of the initial reform period:

"On the surface it looked very successful. From the mid-Sixties to the mid-Seventies our GNP grew at 6%-plus per annum. Real income grew by 5.6%. Everyone was getting cars and TV sets. And we had our agricultural miracle: 4%-to-4.5% annual agricultural growth. It was an unparalleled period in Hungarian economic history."

But, beneath the surface a lack of government resolve was sabotaging the reform. Only the more efficient firms were subjected to some market discipline. The inefficient ones, which should have been scrapped, were kept afloat on a burgeoning river of subsidies.

And there was a reaction, a wave of national anger at the new class of rich managers and peasants. In 1972 the old-school "dogmatists"—the term Hungarians still use for the strict central planner, Stalinist types—rode that wave back into power and proceeded to undo or frustrate most of what the NEM had meant to accomplish. In one year, subsidies to inefficient businesses nearly doubled, to nearly $2 billion at current exchange rates.

Had the dogmatists retained power, Hungary might well have gone the way of Poland. But OPEC saved them from that fate. In the immediate aftermath of OPEC, Hungary's terms-of-trade (the ratio of its export price increases to its import price increases) plummeted by some 25%. The current account with the West swung from balance to a $1.2 billion deficit in 1978. To finance that, Hungary began piling on debt. From 1973 to 1978 the country's hard-currency debt quintupled to $7.5 billion—nearly triple the value of its exports.

Why aren't international bankers worried? Because the deteriorating trade balances brought the reform economists back into the saddle. In 1979 the National Bank of Hungary began cutting back all but the most vital investment loans, giving priority to hard-currency-earning export projects. The result: Hung hard-currency current account regis a small surplus—about $150 milli last year.

The leadership has been impo economic reality with a vengeanc July 1979 the government, which all prices in the economy, raised and car prices by 20% and electr by 50%. Altogether, consumer p climbed 9% and 10% in 1979 1980 respectively. Meanwhile, raises were held to 5.5% in 1979 6% last year.

Kadar has told the people to tig their belts. The 1981-85 five-year states that real income will increas more than 7% by the end of 1985: than 1.5% annually, *vs.* the 5% anc rates most Hungarian workers hav come accustomed to. The governr can peaceably impose such austerit course, because the second economy vides opportunities for other income

Hungary's five-year plan calls fo creasing exports by 39%, twice as fa imports. Hungary has devalued the fo against the dollar, and revalued it aga the ruble to encourage more trade the West than with the East. The calls for incentives and managerial au omy: "Economic regulation should . . . a more profitable economy. . . . enterprising spirit of economic lea should develop. A managerial wor method and style that initiates and re in time to changes should become cha teristic. This conduct should receive litical support, social recognition."

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tends is Ede Horwath, the managing director of Hungary's Raba tractor-diesel-engine-and-rear-axle combine located in Gyor, near the Austrian border.

An energetic, magnetic man in his 50s, Horwath entered Raba's sheds as a young worker in 1938 and has almost singlehandedly built the company into what it is today: a $670 million (sales), 20,000-employee factory that last year sold over 35% of its output to hard-currency markets. Horwath routinely springs breathalyzer checks on his workers. "How can I have drunkards working with machines costing millions of forints?" he asks.

When Budapest's famous, but money-losing, Red Star Tractor factory was recently offered to Raba, Horwath took it over—and cut the work force from 3,500 to 2,500. Several redundant workers, party members, complained. The complaint eventually went all the way to Kadar, who told the party men that Horwath is the boss—a clear signal of the government's support for all profit-oriented managers.

How much does Hungary pay a manager like Horwath—who would undoubtedly succeed in Moline, Ill. as well as he does in Gyor? Horwath won't say, although associates estimate his salary at about $500 a month, but he did remark to FORBES: "I have a friend, an executive with International Harvester, who is a millionaire. I have been in his home and there is no difference in our style of living."

The reformed Hungarian pay system is geared to reward merit. The top manager in a highly productive factory can make over $400 a month, but the same rank of manager in a poorly performing factory will make $300 tops. A skilled worker in a good factory can make $240 a month, while a low-skilled worker can be paid as little as $45 a month.

Moreover, tailors, grocers and dressmakers in Hungary's burgeoning private sector can easily outearn a top f manager. And since January the g ment has been auctioning off resta to would-be entrepreneurs who g tee the government a minimun pocket the difference; they can e up to 12 wage-laborers.

Won't austerity and wage and differences cause resentment?

No, says economist Berend. "L the way the public accepted the increases and the decline in real i last year. If I'm not wrong, the realize they have a great deal to lo that if Hungary is to achieve new in this difficult period, we must certain price for it."

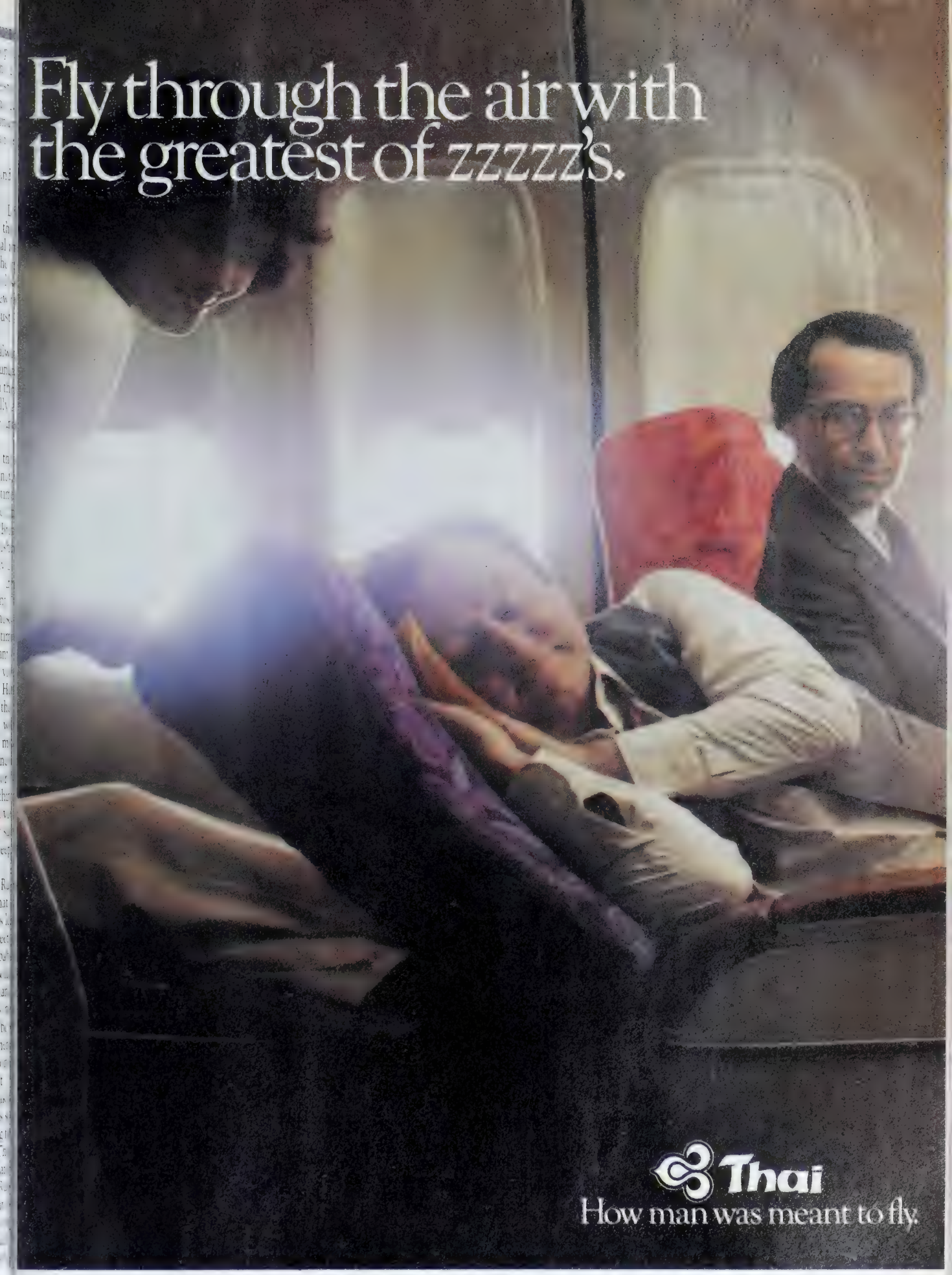
Thoughts of paying a price alwa turn to the same point in Hung Hungarian banker looks out on th ube where it bends majestically picturesque town of Szentendre, an this story:

A Hungarian girl jumps into the ube and rescues Leonid Brezhnev grants her three wishes. Three tim asks for the same thing: that the C army should invade Hungary. Bre promises to grant the three wish demands an explanation of why a otic Hungarian wants to be in three times by the Chinese army. ple," says the girl. "So the Chinese will have to cross Russia three tim

That summarizes the way many, ably most, Hungarians secretly vie U.S.S.R. But they are realistic: Hu shares a 100-mile border with the ets. As Western military men wi you, Hungary is an "open area," me its flat terrain is a perfect entrance for Russian tanks moving west or tanks moving east. "The only thin have to understand about the Sovie top man in the Foreign Ministry sa that they will do *anything* to keep borders secure."

Most Hungarians fear the Rus will march into Poland and that Poles, as they did facing Hitler's le would fight, and die, in the streets Hungarian army would probabl asked, in the name of socialist solid to send only a token force to Poland was to Prague in 1968. That's no worry. The real damage would be t Hungarians' freedom of movement to their economy. Of the Poles, one woman says with some heat: didn't they learn from our mistakes

Mistakes? Are the Hungarians so fortable that they regard fighting fo dom to be a mistake? Hardly. They against the Hapsburgs in 1848, and slaughtered; rose against the Rus and were slaughtered. They are an in gent, energetic people who in a long ic history have learned that small tries must use guile to get along world of larger powers. ■



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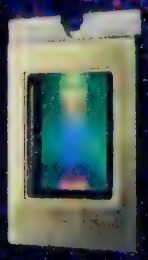

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RCA

A tradition on the mov

President Ceausescu addressing a party conference ***"No work without bread and no bread without work."***

mpared with Hungary—in many ways a odern, progressive country—neighboring mania is an anachronism.

A Balkan despotism

By Lawrence Minard

RESIDENT NICOLAE CEAUSESCU (pronounced: chow-CHES-coo) left no doubt about who's boss in Ru- a when he addressed leaders of the -controlled unions in Bucharest last h. "The party rules," he declared. sescu never mentioned Poland, but ade clear that Polish-style strikes unions would not be tolerated. The anian Communist Party's guide- would be, he said: "No work with- read and no bread without work." ad? Maybe. But in Bucharest's Am- arket, the food stands are depress- bare—a few bundles of carrots and s here, heads of cabbage there. A truck clatters in. From nowhere 500 Rumanians appear and form a line in the truck's wake. The truck is carrying eggs; like milk and butter, eggs are in short supply these days. Meat? Forget it, unless you're high enough in the party to tap the bountiful special TeleService pantries. Ordinary Rumanians can go weeks and even months without any meat, much less a decent cut.

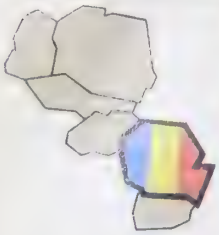
The egg line doesn't budge for half an hour. The people's faces harden. Such is daily life in Bucharest.

Ah, Bucharest. Once it was called the Paris of the Balkans, but that was in the 1920s and 1930s when the love affair of King Carol and Magda Lupescu captured the world's imagination. Somewhat younger Americans may recall Rumania's Ploesti oilfields, which Hitler used and the Allies bombed in World War II. Students of ancient history will know the Romans made Rumania a province, called Dacia, and introduced Eastern Europe's only Romance language. But between the end of WW II and the sight of Nadia Comaneci on the parallel bars at the 1976 Olympics, Americans haven't thought much about the country of 22 million people in an Oregon-size area sandwiched between Hungary and the U.S.S.R.

But they might have noticed pictures of its cherubic, wavy-haired president visiting Washington. In his 16 years in power, Ceausescu has impressed the West by recognizing Israel, condemning the Soviet invasion of Afghanistan, criticizing superpower (including U.S.S.R.) troops on foreign soil, strengthening ties with Peking and taking an active, if as yet unofficial, role in the nonaligned movement. Rumania was the first bloc country to be granted most-favored-nation status by the U.S. Rumania is the only Comecon country to belong to the World Bank and the I.M.F., which have lent the country around $1 billion.

The price for this leeway: Ceausescu has rendered unto Moscow a brutally repressive—but loyal and secure—police state, one that now shows signs of the kind of economic decay that has afflicted Poland in the last two years.

Rumania's hard-currency debt has spiraled from $3 billion in 1976 to over $10 billion today. It must spend around 27%



State-owned textile factory in Bucharest and (below) *computer peripheral plant 45%-owned by Control Data Corp.*
Under stress, talk of "incentives."

of its export earnings to service that debt—not an unhealthy ratio by itself—but the country's ability to maintain those export earnings is in question.

Rumania must export food for hard currency, but the country is facing one of its worst food crises in recent memory due to disastrous weather in 1979 and 1980. Severe flooding of the Danube in March suggests another bad year.

So Rumania is importing food and capital, paying out the hard currency it should be taking in. Even by *official* statistics (many of which are doctored to show what the leaders and lenders want to hear), the country's trade deficit rose to $1.5 billion last year, up from about $1.2 billion in 1979. The government will reveal only that 50% of the import bill was accounted for by fuel and raw materials (against 38% in 1975), but most of that $1.5 billion deficit is believed to be with the West and OPEC. The U.S. sold Rumania $463 million worth of agricultural products last year, up from $337 million the year before.

The strains are evident in Rumania's chaotic internal currency situation. There are at least three official rates for the Rumanian leu, the commercial (4.5 lei per $1), the tourist rate (11 lei per $1) and an imported-goods rate (15 lei per $1). But in the real world there are other currencies. Rumania is one of the few places left where an American dollar or pack of gum or cigarettes still buys a lot of service. The government recently revalued the leu by 8% on the tourist rate in order to wring a little extra hard currency from foreign businessmen and tourists. But Bucharest's thriving currency black market, which had been offering 25 lei per $1, has recently devalued it to 37, about what you'd get in the Munich or Sofia airports.

The second hard currency is Kent 100 cigarettes, which fetch $7 per carton in the official, tourists-only Comturist shops—and 450 lei ($40 at official rates) on the street. Working this black market are the secret-police-approved prostitutes who clog the bars at the city's better hotels, and the African and Arab students who meet furtively in the dimly lit lobby of the Inter-Continental Hotel—eerily dark, like the rest of central Bucharest, in an attempt to save fuel.

How did Rumania come to this? Less than a decade ago it was the envy of Comecon—the organization of Eastern Europe's centrally planned economies. Rumania had what no other Comecon partner save Russia had: oil. During the 1960s and early 1970s, oil fueled Ceausescu's dreams of creating Rumania's New Socialist Man by turning his predominantly agrarian economy in industrial powerhouse. Like his p cessor, Gheorghiu Dej, Ceausescu v ed "independence within interde dence" in Comecon. This meant c ing up with—and not merely feed the more developed East German Czechoslovakians. In the Rum view, this meant industrializing at digious rate.

"Ceausescu's fundamental mist says a European businessman residi Bucharest, "is that he has attempt perpetrate in 30 years an industrial lution that took Great Britain 200 to accomplish." And he neglected culture. In the last 20 years, Rum central planners have channeled 24 34% of Rumania's fast-growing nat income into investment, with at half of that going for steel mills, p chemical refineries and other indu complexes. Against industry's 50%, culture generally received 15% o country's capital budget. The cour agricultural work force has shrunk 65% in 1960 to 30% today. But indu alization has drained the land of its workers. One Western economist mates that, with 30% of the work f the heavily collectivized farms de barely 15% of the nation's income.

But the key ingredient in Rum economic fall is oil. Rumania's plan in the 1960s decided to build a p chemical refining industry with an mated capacity of 600,000 barrels a reasoning that selling refined proc rather than crude oil would earn export dollars.

But to their chagrin, Rumania's f began to run dry, and instead of ex ing oil, the country had to import. mestic production is dropping by n 10% a year now. Last year Rumania duced only 11.5 million tons and h import 15 million tons more to me needs. A net oil exporter until 197 did not get much time to enjoy the f of OPEC's 1973 price hikes before i to suffer from them.

About 10% of its oil imports c from the Soviet Union. But, unlike Comecon partners, Ceausescu must the same world prices, in hard curr or hard goods, to the Russians as he his major suppliers—Iraq, Iran, Liby the spot market. Rumania's oil bill year was around $4 billion, and it sh be about the same this year. Yet bec refined product prices rose more sl than crude's price, it became economical late last year for Rumani import crude for its export refineri Western economist in Bucharest lieves the petrochemical complexe running at about 50% of capacity, el nating what was meant to be a sour hard-currency earnings.

So now Ceausescu's planners mus

w the dream. Their new approach nds simple enough: Slow investment, iserve oil, boost exports and improve iculture. In energy, that calls for re- ing oil and gas consumption from % of primary energy needs today to in 1990. The country plans to con- t its electric generating plants from a % dependence on oil to domestic and orted coal (up from 30% to 45%), roelectric power (16% to 24%) and lear (0% to 18%). Rumania has ed a $1 billion contract with Canada four Candu reactors and a $250 mil- contract with General Electric for a m turbine. The first plant is sched- d for startup in 1985, but virtually no believes the schedule will be met.

o solve the trade balance problem, usescu earlier this year ordered the e-run industries not to accept any stern imports not backed 100% by nanian exports—meaning the busi- sman selling to Rumania gets not but products, which he must then elsewhere. But Western businessmen they are able to sell little that Ruma- makes.

s one European businessman, nurs- a $5-per-shot whiskey in the bar of Inter-Continental, put it: "What it s down to is that any business in nanian countertrade is the business elling what the Rumanians cannot themselves, including a large portion e unsellable."

ome businessmen have been counter- such trickery by paying the Ruma- s 25% penalties in lieu of taking r goods or by going through trading panies that undertake to sell Ruma- goods for an 18% to 20% commis- . The businessmen secretly include charges in their selling prices. But Rumanians have gotten wise, and are anding 120% and even 140% coun- ade contracts, thus driving many le- nate businessmen away.

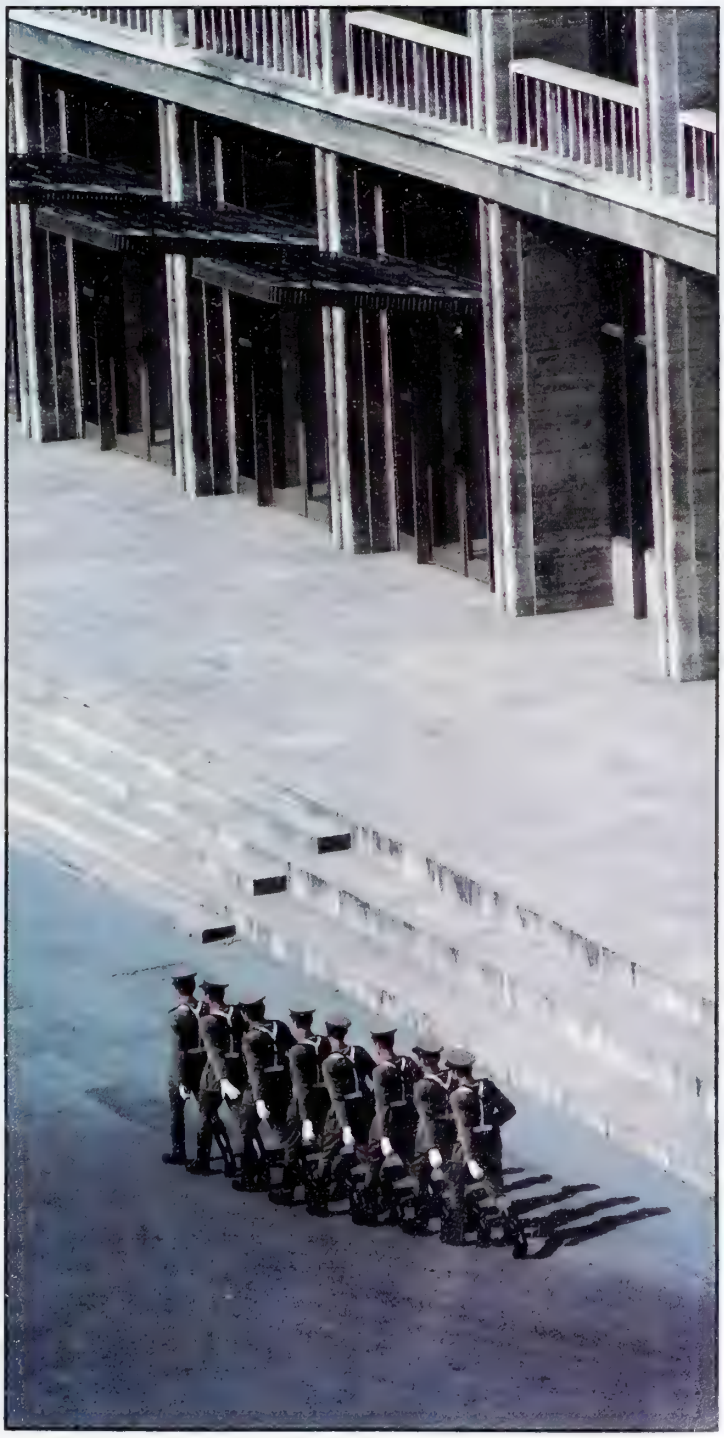
e most pressing and least immedi- tractable problem is agriculture. Ru- ia's agricultural life is the unaccept- face of socialism, a world of mud ts and outdoor plumbing, of rubble- d shanty yards and horse-drawn carts outnumber trucks 10-to-1.

ausescu in February finally admitted he had "neglected" the country's ultural base and promised to pay attention. According to Ovidiu scu, director of planning at the Min- of Agriculture, the basic idea now is crease the amount of arable land by , to 30 million acres, by 1985. scu also promises more tractors, fertilizers, more meat and poultry essing plants. Farm prices were re- ly raised 12%, though retail prices rise only 5% by 1985.

t is Ceausescu really getting serious t agriculture? Popescu's colleague at the State Committee for Planning, energetic Toma Melinte, told FORBES that the 1981-85 plan will probably designate only some $15 billion to agriculture, about 11% of the total investment budget; industry will receive about 54%. Yet during the 1975-80 plan, agriculture rated 14% of investments against industry's 50%. With allowances for overlapping of categories—tractors, for example, are industrial—the ratios do not bode well for agriculture.

As to industry, there is talk in Bucharest these days of spreading "managerial responsibility" and of giving "incentives." And the amounts are small: Under Ceausescu's New Economic Mechanism, introduced in 1978, a factory that boosts profit (basic even to Marxists: cash in, revenues, minus expenses, cash out) by $1 million, for example, may distribute only $2,850 in individual incentives.

At least one successful Rumanian thinks the scheme will work. Calin Spiride, general manager of Control Data Corp.'s 45%-owned RomControl Data—which produces $12.5 million worth of computer peripherals for the local and Western European market—thinks scarcity will bring discipline to Rumanian industries, and managerial responsibility will revive them. "The period when a company could use [meaning: waste] unlimited resources to produce whatever



Rumanian troops on parade in Bucharest
In addition, an omnipresent and trigger-happy secret police.

Attracting Capital to

Innovative thinking by the U.S. insurance industry is helping facilitate the search for energy resources worldwide.

INA looks at some of the ways insurance is bringing greater financial security to this urgent, high-risk endeavor.

Steady, dependable sources of energy are the sinews of industrial society, influencing national strengths and political strategies. In its search for critical new sources, the energy industry is confronted not only with these realities, but with many uncertainties.

No one can be sure where the next major oil strike will be made, or how much oil it will yield. Largely untapped resources–synfuels, oil shale, solar, wind and tidal power–remain tantalizing, but elusive.

Even existing sources are exposed to grave risk. Ocean drilling rigs are threatened by perils unknown to land operations. Electric utility plants are subject to unexpected overloads which can black out entire communities. The effects of government regulations, particularly environmental measures, represent another major imponderable.

Supplying energy in the face of such uncertainties calls for major expenditures. U.S. oil and gas exploration and development alone will require an average of $70 to $80 billion annually between now and 1990. A shale oil plant producing a modest 100,000 barrels daily of synthetic fuel costs at least $3 billion. To attract such immense sums, some positive assurances of return on investment are needed.

Protecting huge investments

Replacing energy doubts with certainties through indemnifications for loss of physical assets is a prime responsibility of the insurance industry. But the billions of dollars of insurance required to cover exploration projects, refineries, power plants and transmission lines, have strained world markets.

To narrow the gap between need and capacity, most energy companies are using their own funds, through various forms of self-insurance, to cover their more predictable exposures. This frees commercial insurance capacity for the less foreseeable and potentially catastrophic ex-

Energy Development

posures. Moreover, the insurance industry has formed "pools" of capacity to make such outsize risks as supertankers, ocean drilling platforms and nuclear generating plants economically feasible.

Most challenging of all is adapting established insurance products and creating innovative ones to meet emerging energy industry demands.

For example, "builder's risk" insurance typically covers shortfalls in construction and manufacturing. Now it is being extended to such energy activities as recovering heavy crude oil from tar sands. Insurance compensates the owner of such a facility should it fail through technological deficiencies to meet financial commitments.

Similar protection applies to caverns prepared for underground storage of hydrocarbon products. Here, the owner is protected against losses resulting from the cavern's failure to meet pre-established specifications.

Defusing threats of depletion

Owners of energy resources still in the ground count on them heavily in their financial planning. Although current technology can provide useful estimates of the extent of reserves, some doubt inevitably remains.

To counteract such uncertainty, insurance protection can be provided for the minimum value of the reserves. This allows their use as collateral and makes possible firm planning and commitments. It also may permit the use of standard "up-front" plant financing, rather than costly venture capital. In the case of geothermal reservoirs, insurance protects against any resource inadequacy which results in the abandonment of the generating plant.

INA's experience in fulfilling energy insurance needs, domestic and international, reaches back many decades. Today, INA is aggressively involved in all aspects of energy-related insurance, particularly through Energy Facilities, a unit of INA International and Special Risk Division.

Comprehensive services

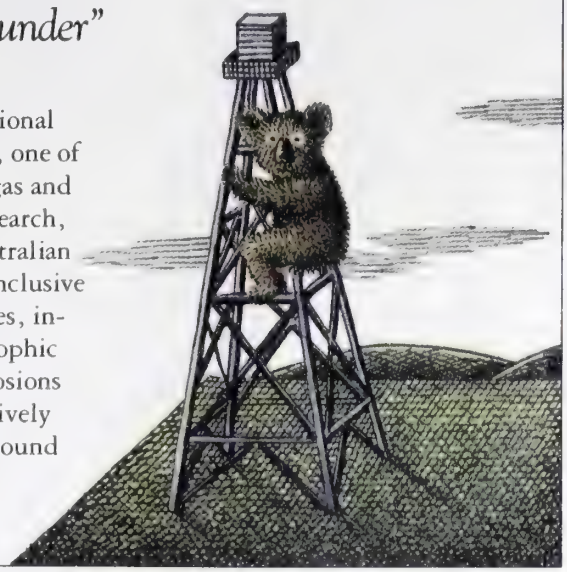
Recognizing and meeting complex needs, such as those of the energy industry for attracting capital, typifies INA's comprehensive approach to increasingly sophisticated insurance and risk management problems.

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance, financial and health care interests. In property and casualty insurance and risk management services, life and group insurance, health care management and financial services, INA and its affiliated companies offer a unique combination of products and services to business and industry worldwide.

For an informative booklet on insurance and the energy industry, write INA, Dept. R, 1606 Arch Street, Philadelphia, PA 19101.

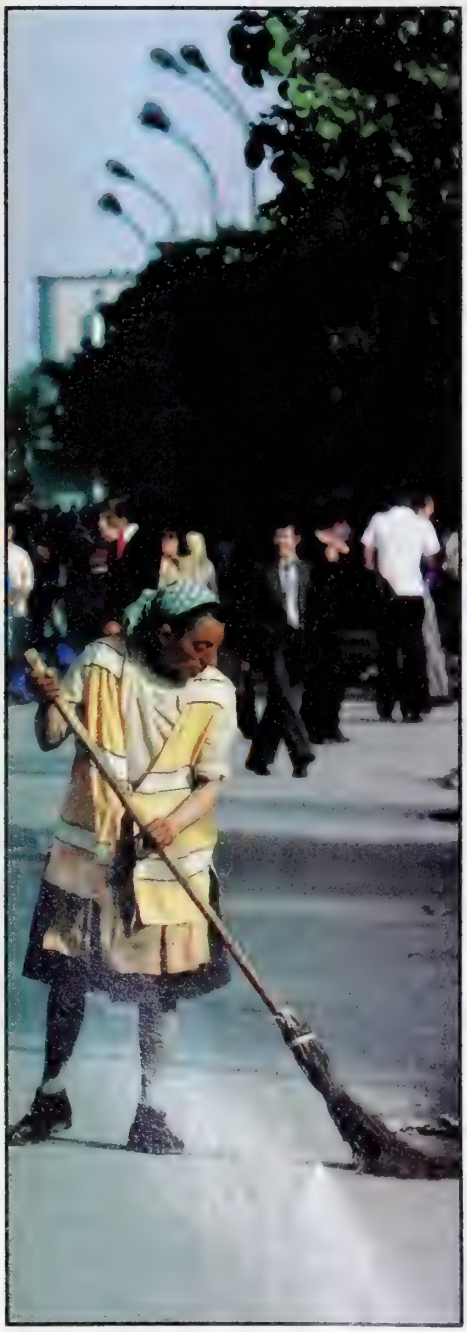
A green light "down under"

The search is on for additional energy resources in Australia, one of the world's more promising gas and oil frontiers. To further this search, INA International offers Australian drillers and investors an all-inclusive package of insurance coverages, including such possibly catastrophic exposures as blow-outs, explosions and well collapse. This effectively opens the way to financially sound exploration.



INA
The Professionals

Farmers in Transylvania and (below) *street scene in Pitesti*
"Basically, a system of disincentives."



the plan required is gone forever," says Spiride, whose company exports 60% of its production and is almost profitable.

But most Western businessmen and diplomats see little hope for the economy near term. "The whole system here is basically one of *dis*incentives," says a British businessman. He notes that Rumanian workers can be fined as much as 20% of their already meager pay—the average wage is only $200 a month for a 46-hour week—if they don't meet their production targets. "Everyone is a master at keeping his target low enough to be easily met. Why should they want to *exceed* a target? If they do, they know that next year's base target will just be that much higher." The scarcity and hideous expense of consumer goods—2 months' wages for a small refrigerator, 33 for a car—are also a disincentive.

But the most profound reason businessmen give for a continually stagnant Rumanian economy is the effect of tyranny on the people. After 30 years of living under the threat of exile, jail or execution for political or economic "deviation," the Rumanian has become adept at *avoiding* the very initiative and responsibility Ceausescu is now demanding.

All the years, even the relatively prosperous ones when he was being hailed as the West's best hope, Ceausescu was imposing repression at home. Thus ordinary Rumanians are forbidden to speak with foreigners. Travel abroad, even to Comecon nations, is tightly regulated and permitted only if close family members are left behind. Amnesty International reports it has a "substantial" number of Rumanian "prisoner of conscience" cases, compared with none for Hungary. Thus the numerous defections, that of Nadia Comaneci's trainers being only the latest.

Now, as the economy declines, Ceausescu is coming to resemble more a traditional Balkan despot than the leader of a modern state. His wife, Elena, is probably second-in-command and is r promoting her youngest son, play Nico, into the limelight. About a do other relatives occupy comfortable p tions in the state hierarchy. One res says a businessman, is that there's middle management here." Desp rule can have terrible consequences l term, but short term it is hard to against. While there are rumors of stri in Rumania, it differs from Poland in critical respects.

First, Ceausescu's *securitate* secret lice are omnipresent and trigger-hap The probable execution of the leader the 1977 Jiu Valley coal strike, Ru nia's last major labor dispute, serves reminder that Ceausescu, unlike land's leaders so far, would not shr from brutal repression.

Second, Poland has the Roman Cat lic Church, which is by tradition in pendent of the state and has served refuge and focus for political oppositi The Rumanian Orthodox Church—which 80% of the population belongs—subservient to the state, which appoi its bishops just as the state appoints, a new labor minister. The result, say Rumanian intellectual, is that the peo feel "frustrated, mentally bound gagged. . . . There is nothing anyone or wants to do."

In one respect, however, Rumani becoming another Poland. Says a bu nessman with extensive knowledge the system: "If they go on the they're going, they'll end up like Pol in the sense that no one will do business with them." He alludes Ceausescu's standing with the We "Now I understand that Western gove ments have vested interests here pol cally. But if Western governments w us to stay in bed with these people, th Western governments are going to h to help pay the costs of staying in a pl where doing business is uneconomic s en times out of ten." ■

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If no man is a hero to his valet, what broker can be to the man who drives his cab?

A ride with Daljit Ahluwalia

"I tell you all about Wall Street"

By Newcomb Stillwell

YOU SAY LAGUARDIA?" A big, cheerful smile. "No problem." The youthful driver, identified by the dashboard hack licenses as Daljit Ahluwalia, twists forward, puts the cab in gear, moves toward the light half a block away. A glance in the rearview mirror. "You work in that building, FORBES magazine?"

Uh, yes. I'm a reporter.

"A reporter? You write about Wall Street? I tell you all about Wall Street. My company, Skyline Two-Way Radio Taxi Association, we have many customers there, brokerage houses, big banks, investment bankers, lawyers. I pick them up, all of them.

"I think that is the real place to work, if you really want to be a cab driver. The people have a respect for you, not like on Madison Avenue. They know how you make money. Standard tip, good tip, all the time. The reading light, behind you there, we put in so they can work. They don't mind paying for the cab. They charge *their* customers." Grin.

"They tell me what they're doing. One guy, investment banker, when Penn Central was losing money, he rode with me every night. He'd say they're trying to clean up the mess, sell the company to some big company. He wouldn't say much, I don't think by law he can tell me too much." A smile, a wink in the rearview mirror. "He doesn't have to, you know."

Do you ever think about playing the market yourself?

"Well, I am still paying off the cab. Besides, I must study the thing more before I put anything into it. When I do, I will keep driving the cab, make the c tacts. The market, I guarantee it is very best way to make money, onl you have money. Example. I hav broker last night in the cab, who w in the bonds. He was telling me his customer put, I think, $70,000 in future bonds, in one week he m $120,000. That is the fastest mone the world you can make."

Daljit turns around. "You remem last year when the price of gold wa high? One young guy in the cab, he 23, 24, he showed me, he had $200, cash in his bag. He said the trouble in Middle East is making him a tremend amount of money in the gold. Used t many people in the cab were in gold, c I think they don't ride anymore. I there is not enough trouble in the Mi East for the cabs.

"I listen, ask questions. The brok though, you see how fast they give t cards, if they think you have mo One guy, he said to me, 'You hav friend who sells his cab. You tell hir call me, I give you a 15% commiss couple thousand dollars.' I get two, tl cards a month. Tell me, you fly to some company?"

Well, ah, yes. Some of the brokers pretty fast talkers?

"The brokers, some of them are g some. . . ." A shrug. "One man in cab, I asked him why he was so ha He said his customers are makin much money, he has to make mo too. The other in the cab, he saic doesn't care so much, 'I make mc even if they lose it.' There are m ways to be robbed."

The cab stops at the Triborough Br toll booth. Daljit pays the toll and s up again.

"All kinds get in the cab. The in ance guys. Forget them. They come f Chicago, Ohio, out there, scared of I York City. They don't mind which you take them, they just want to see the window.

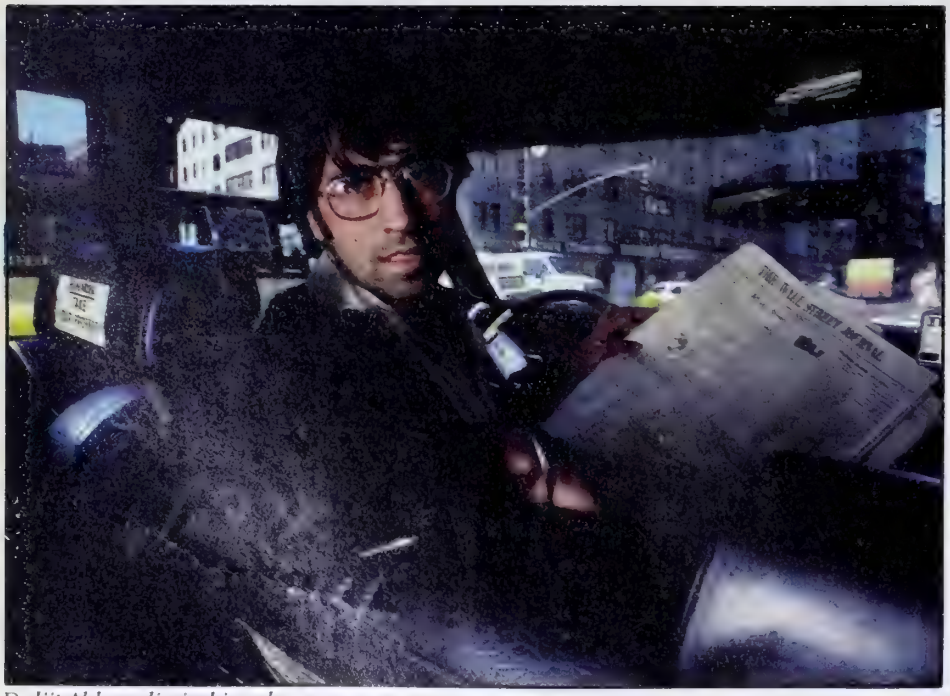
"The consultants, very smart. All time asking you what's going on in city, what all the companies are d getting leads. They only ask you w they want to know, you tell them thing else, they don't listen."

Worse than reporters?

"Oh, yeah, sure. Reporters, they c take so many cabs, I think. Bankers, take many cabs, fly all over the w make good money, lend it out to c parts of the world. The Europeans, nese banks, these banks do very w think, work very late. Sometimes. .

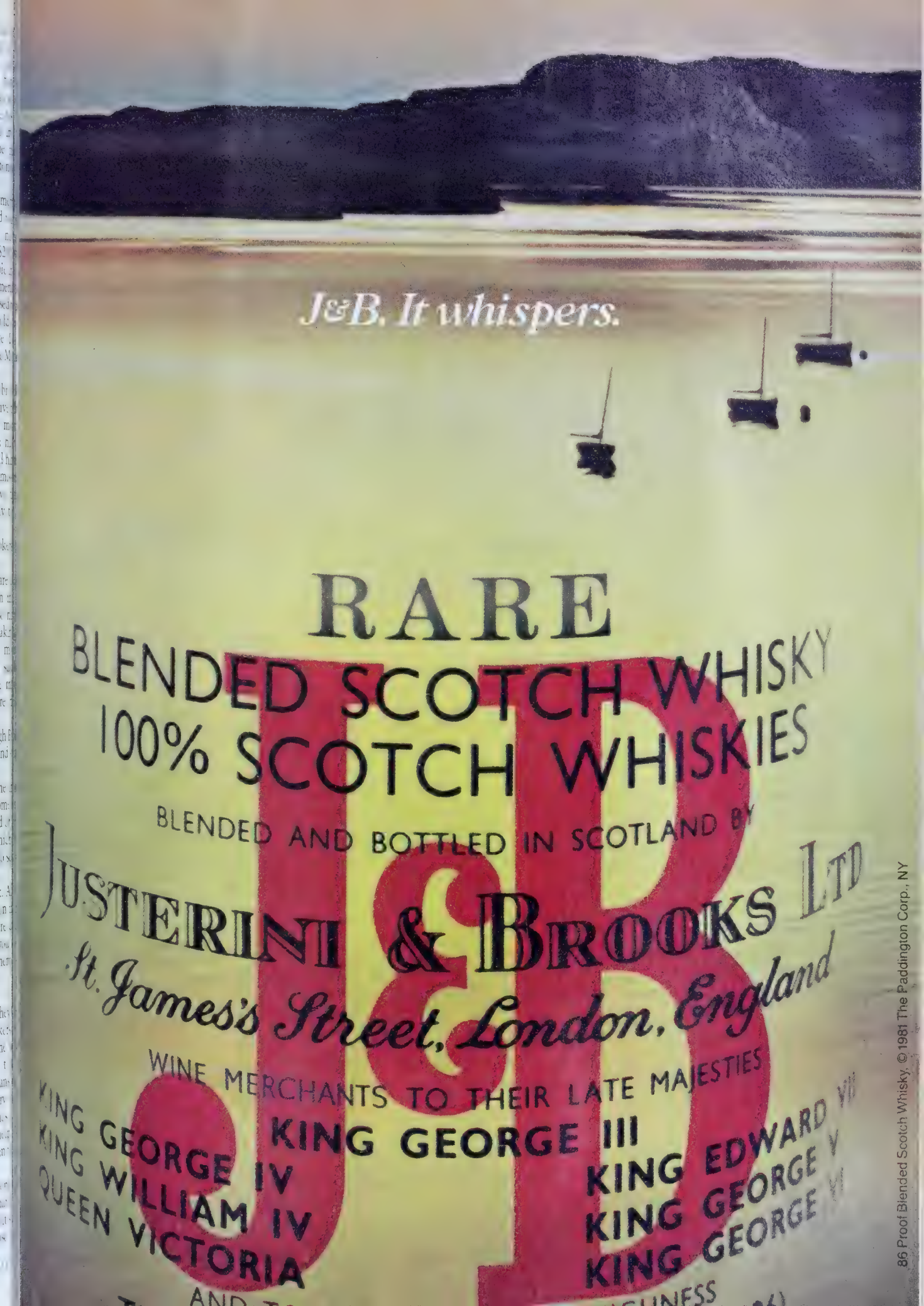
"Reagan, they say, he will help. Street, they love him. Nobody in the voted for Carter."

Just then a small car cuts in front o cab. Daljit hits the brakes, hard. passenger falls forward. But Daljit sir shrugs. "Another one of those J



Daljit Ahluwalia in his cab

"Brokers, bankers, investment bankers—they tell me what they're doing."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drivers," he mumbles. He turns around.

"One time, I tell you. These guys in cab, they said they're from Czechoslovakia. I ask them how it is they are here. They said they come to borrow money. Then I said to myself, 'Oh my God, I can't believe that. They borrow the money, hardly they can speak English.' "

You'd think the bankers would know better, huh?

"Yes, but mostly I don't think they ever lose any money down there. They are too smart, very smart. These people, I think, they have every day a good day."

Who's making the most?

"Mmmm." Grin. "Goldman, Sac think. You know that company? are so happy, always."

The cab stops. Daljit flips the m "That is $14.50, with the toll, pl Have a good trip." ■

Itel and OPM have given computer leasing a reputation that wou make a snake-oil salesman blush. Is Chicago's Comdisco different?

"We learned our lesson good"

By Newcomb Stillwell

"WE HAVE AN IDENTITY CRISIS," says Comdisco Chairman Ken Pontikes. A former college wrestler, Pontikes' face carries the mournful expression of a friendly bear whose honey has just been taken away. "We're not like that." Like OPM and Itel, he means. Pontikes' $265 million-a-year company suffers, he thinks, from guilt by association.

Given that two spectacular corporate bankruptcies have recently hit his industry, it's not hard to see why. Computer leasing *can* be extraordinarily risky. Pricing decisions—and profits—often depend on estimates of the computer's value far in the future when leases will have expired. Overoptimistic calculations of these so-called residuals can be disastrous. They may, for example, have led to OPM's collapse.

Pontikes, however, claims Comdisco is different. Part of the reason is that over half Comdisco's revenues don't even come from leasing: The company is the world's largest broker/dealer of used computers. This is definitely *not* like being a dealer of used cars. There is no floodlit showroom. Instead, Comdisco's operations, centered right outside Pontikes' office in the firm's Chicago headquarters, look like a miniature version of Salomon Brothers' trading floor on Wall Street. Armed with data on some 8,700 major domestic computer users, four full-time specialists communicate with Comdisco's 50 field agents, buying and selling machines worth as much as several million dollars each.

These traders, moreover, use all the wiles of their Wall Street counterparts—shorting a computer has nothing to do with a fuse box. "The market's unregulated," says Pontikes, who founded Comdisco in 1969, after four years as an IBM salesman, and who personally approves major positions. "We're always trying to corner a particular model." The bulk of his trade involves IBM equipment, for the simple reason that, like government bonds, massive numbers mean liquidity and the issuer backing them is solid. Manufacturers like IBM have a vested interest in the resale market: Selling a new computer is easier if the customer knows he can get rid of it with minimal headaches.

Computer brokerage isn't Comdisco's only nonleasing line. In the event any of its customers—65% of whom are regulars—get into real trouble, the company has entered a new business: disaster relief. It is building about a dozen computer-packed centers around the country for subscribers whose data processing systems are out of service because of power failures, flood damage or fires. There are also "shells"—empty, temperature-controlled rooms with lots of wall sockets, where customers can recreate their own machine configurations from Comdisco's inventory. "This should be a real service," says Pontikes. Never did a man seem so enthusiastic about disaster.

In addition, of course, Comdisco does lease computers—about $178 million worth of them at book—in several different ways. In the simplest arrangement, Pontikes farms out a machine his traders have bought, hoping to recoup the entire purchase price through income fr long-term lease. He prices short- leases—a 90% share of his portfolio the assumption that Comdisco wi able to cover some of its costs b leasing or selling the computer whe lease expires. That's the high-risk tion of residuals.

But Comdisco, which has paid ba penny in taxes since its foundin 1969, can't use all its investment cr and depreciation benefits. So Pon sometimes sells a computer to a burdened investor, leases it back, subleases to an end-user, pricin above. And—careful not to miss an vy—Comdisco negotiates a piece o value remaining after its lease is up.

That's not the only kind of le Comdisco does. Through a subsidia packages leveraged leases for a fee, w the tax-burdened investor is leasin rectly to the end-user. Lately, the su iary has broadened its sights to in things like rail cars, drilling rigs and airplanes. "They keep telling me a C should finance ships," says Pontik 41-year-old first-generation Ame who went to work at age ten i parents' grocery on Chicago's S Side, "but I haven't been able to fin yet." Beyond its fees, Comdisco m sure it gets all or most of any res value after the lease term. More gra

All this wheeling and dealing has duced impressive results. Over the five years Comdisco's revenues grown 43% annually, earnings hav creased from $2.3 million to $7.1 mi and return on equity has averaged Those numbers include fiscal 19

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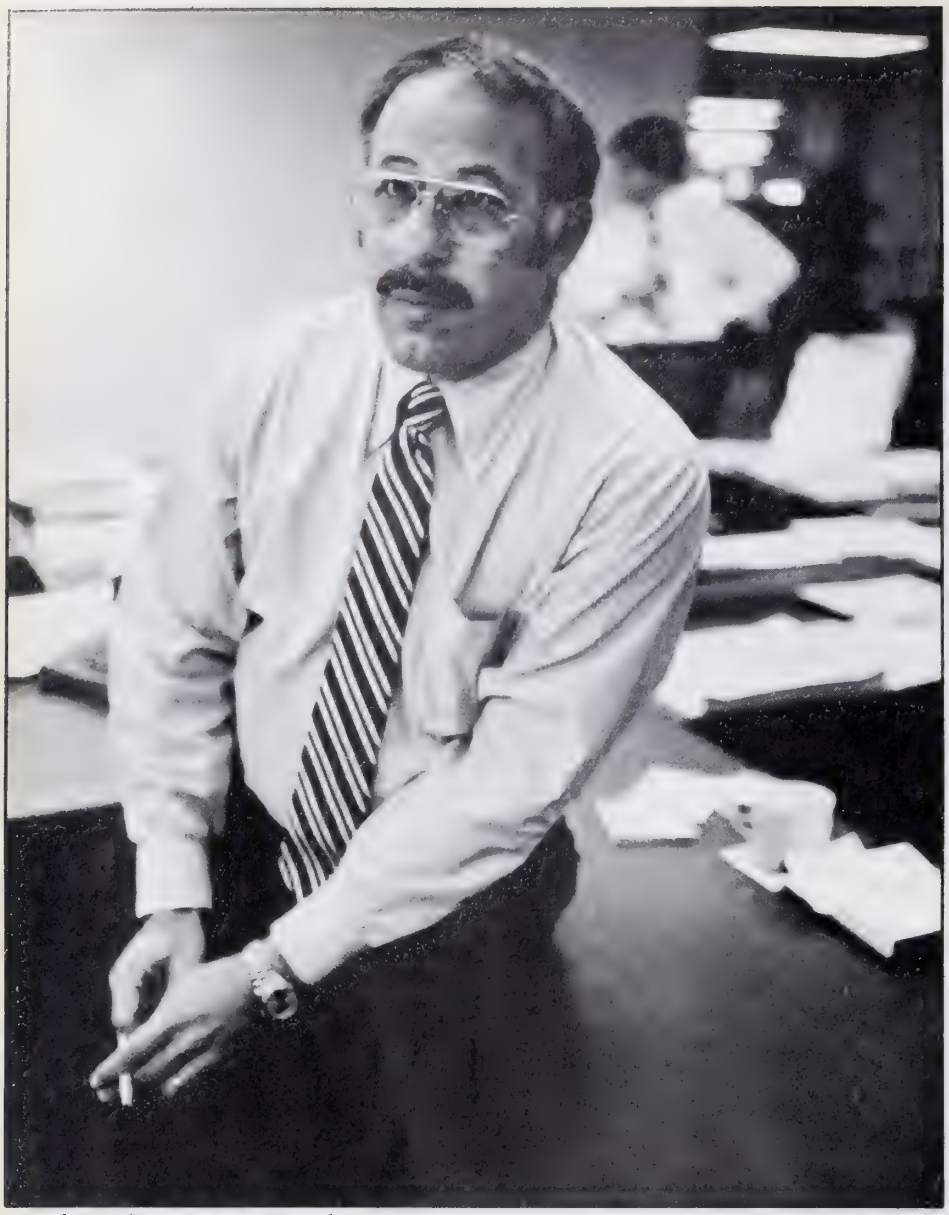

Comdisco Chairman Ken Pontikes
"They keep telling me a Greek should finance ships."

year in which earnings actually declined. Many computer customers, awaiting IBM's long-anticipated H series, decided to lease rather than buy.

That doesn't kill Pontikes' profits, however, it just spreads income over the lease term. The results are rolling in now. Helped by a massive surge in business after IBM's new product debut, Comdisco's revenues in the first quarter of fiscal 1981 rose 38%, to $79 million, while earnings jumped 56%, to $3.3 million. Its stock, which sold off sharply in early 1980, now trades at a premium multiple of 20 times earnings. In fact, Comdisco had new highs at the same time OPM was hitting the papers.

That's just what gets some people worried. After all, a couple of Comdisco's competitors looked mighty impressive right until the bitter end. A big reason was residuals, which can give even the most fevered leasing company's financials a deceptively healthy glow. Not us, says Pontikes: "We think we'll make some money off residuals. But we'll count it when we get it."

Actually, it's a little more complicated than that. Leasing companies count residuals all the time; what's important is how vulnerable they are to mistaken estimates. Pontikes claims he leans over backwards to keep exposure minimal.

Take the lease portfolio that appears on Comdisco's balance sheet, including the computers Comdisco owns and some it has leased from others. Here it is exposed for various reasons. The most obvious is because short-term leases can't be priced competitively to recoup the computer's entire cost. At the end of the first quarter, Comdisco's exposure here stood at about $15 million, the gap between the present value of noncancellable rentals and the underlying equipment's book value of $133 million.

The second way residuals creep into the balance sheet stems from the accounting requirement that comp like Comdisco book the estimate siduals of sales-type leases directl earnings. As a result, Pontikes ha ported $2.7 million in income 1976. "We were forced into a cor says Frank Trznadel, senior vice dent of finance, who didn't want t ognize those earnings. "Our auditor generally accepted accounting princ required us to put that number in th Taking on the green-eyeshade boy cause *you* are too conservative?

There are two hedges against thi posure, which totals roughly $18 mi First, Comdisco depreciates comp faster than necessary to reach estin fair market value when a lease ex At the end of the first quarter this d ciation cushion, projected forward s al years, totaled about $21 million. ously the protection this cushion vides depends on how accurate fair-market-value estimates are.

Another hedge is the potential res value of computers that *don't* appe Comdisco's balance sheets. This cludes leveraged leases packaged fo ers and some of the sale/lease-bac study by Arthur D. Little and IDC mates the present value of the f computer re-lease rental stream a over $46 million. That doesn't in any value those box cars and airp might have.

The other major risk for a leasing pany is interest rates, and Com hedges those too. "We're risk tak says Pontikes, "but in the computer ket, not the money market." He fin all leases long term by selling the r stream on a fixed-rate, nonrecourse to a bank or insurance company. disco gets cash up front, with lock cost, and the lender has to stiff any quent customers, who pay it directl

Add it all up, and Comdisco mighty conservative. It wasn't al so: Launched primarily as a b dealer, the business boomed until Then the company posted a $2.2 mi deficit. Comdisco had a hefty long tion in IBM 360s. Its inventories w to 4 times net worth, and when It cided to liquidate its $200 million portfolio, the market collapsed.

That problem was compounded b terest-rate woes. "We were fina leases with floating-rate debt," says tikes. "All of a sudden we were w extra interest checks when there w anything extra coming in the door."

"Since then," he says, "we've ke fixed rates and kept trading invent under 20% of stated net worth." P "We learned our lesson good."

So far, it seems, he's right. But puter leasing is a business full of prises—and technology brings chan quickly that even the most prudent can only guess about the future. ■

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th rich corporate acquirers sighted offshore, Britain's free enterprise vernment may be abandoning principle to man the barricades.

Does Her Majesty view with alarm?

By Barbara Ellis

E DON'T EXPECT THE CAVALRY to come to the rescue, but a gesture by the grenadiers d not be out of place." With those s, at a formal dinner, ex-grenadier ohn Buckley told British Foreign tary Lord Carrington what he ght of Dallas-based Enserch Corp.'s million bid last December for his pany, Davy Corp. Something of a tionalist, Buckley was appalled at dea that $1.7 billion (sales) Davy—h is Britain's largest engineering actor—could pass into foreign s. "It would be bad for our busi-" he told FORBES. "We will be successful acting independently under the wing of a company that o experience in our field."

ckley's lobbying apparently had ef- In March, John Biffen, U.K. trade tary, sent the deal to the Monopo- Mergers Commission for a rul- n whether it would be "against ublic interest." Procedure at the nission, lately clogged with work, anywhere from six to months, allowing pre- time for Davy to locate knights or to work on ermoves.

ere are signs that Brit- ficials are awakening to act that merger fever has l meaning for the U.K. In the cur- depressed state of the economy, buyers are bound to be foreign, and imes they will be carrying off the emaining company in an industry. thought has Margaret Thatcher's et ministers rapidly abandoning ples.

Keith Joseph's Ministry of Indus- hich had pledged not to aid failing anies, bailed out the U.K.'s only ague computer manufacturer, ICL national Computers Ltd.), in n, with a $450 million loan guaran- The reason for the bail-out, Joseph was the government's dependence on ICL's computers—$675 million worth, spread over 20 departments. Earlier, after official attempts to encourage a takeover by British companies had failed, there had been reports of approaches to ICL by Hitachi, Philips, Siemens and Sperry.

If there is veiled protectionism in Britain's largely unformulated merger policy—each case, officials insist, is decided individually—that policy could be in for a test. After the bids in the U.S. for AMAX, Kennecott and St. Joe Minerals, London analysts see world mining giant, $5.7 billion (revenues) Rio Tinto-Zinc as a prime target. Once thought too big to be taken over, RTZ recently enhanced its attraction by settling the long-running Westinghouse uranium cartel suit. No buyer would have been eager to pick up the tab for possible punitive damages.

The British might be reluctant to see control of RTZ pass into foreign hands. "RTZ operates almost as an arm of British foreign policy," remarks a government adviser.

RTZ supplies Britain's state-owned Central Electricity Generating Board with 100% of its uranium needs—although with delays in reactor-building the country has built up an estimated five-year stockpile of the essential element. And Britain, which has always left the supply of such things to private companies, has accumulated no stockpile of the other strategic metals that RTZ produces—such as copper from Papua New Guinea and Canada, zinc from Australia and molybdenum from Canada.

Even so, Prime Minister Thatcher's government failed to offer any official protection to Consolidated Goldfields last year when Harry Oppenheimer's South African Anglo-American Corp. bought a controlling 29% interest in it. Similar inaction, consistent with Tory principles, is possible in the event of a foreign move in RTZ. "We don't see this as something that government should get involved in," says an official at the Ministry of Industry.

If a foreign company succeeded in buying control of giant Rio Tinto-Zinc, then the only significant mineral resources company left in British hands would be Selection Trust, recently acquired by British Petroleum, whose Standard Oil (Ohio) affiliate is taking over Kennecott. In that event, the official concedes, "we could be concerned." The British may lose companies, it would appear, but not their gift for understatement. ■

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'hat is J.B. Fuqua really up to? He says he eds a big acquisition, but he's moving in a ıy that makes him a tempting target.

Time to buy or time to sell?

By Jean A. Briggs

FUQUA HAS A PROBLEM. The $1.6 on-a-year company that bears his e is missing the fun on Wall Street. ıa Industries stock has barely ged over the past year, and its shares e at an embarrassing 3 times 1980 ings. What's more, this lackluster ormance comes at a time when e conglomerates have developed a nvestor following: Allegheny Corp., example, has appreciated by 50% the past 12 months. So have Ban-Punta and Whittaker.

rt of Fuqua's trouble, of course, ıs from his own buy 'em, sell 'em oach to management. He runs Fuqua stries more as a portfolio of individ-ompanies than as a coherent corporate whole. Last year some 50% of earnings came from businesses that have since been sold. Fuqua, for example, is busily disposing of his broadcasting operations. The reason? He thinks they're at the top of the market because of competition from cable television systems and videodiscs.

Such is Fuqua's style—and it isn't about to change. At the moment, he's squirreling away cash. Fuqua Industries, he says, needs a major acquisition to give it a public identity. But Fuqua doesn't get his ego wrapped up in takeovers. He backed away from Avis, the we-try-harder car renters, when Norton Simon offered more money. His efforts to buy Hoover, the vacuum cleaner folks, also collapsed.

So Fuqua bides his time, scanning the landscape, looking for another opportunity. That's not all he's doing, of course. Fresh-faced at 62, he's a dealmaker at heart. Fuqua wants an operating company to pair with Cyprus Corp., a $52 million (assets) closed-end investment company he controls. He also needs an acquisition for Pier 1 Imports, a $117 million-a-year Texas-based, retail company. Fuqua is its chairman, and Pier 1 has a fat tax-loss carryforward.

As for Fuqua Industries, however, all of his recent deals have had one purpose: putting the company's financial house in order. "We've been operating conservatively over the past two years, getting ourselves into a more liquid position," says Fuqua, sitting calmly on a sofa in his office high above downtown Atlanta. He's just returned from his winter home in Ft. Lauderdale, where, he says, dealmakers love to visit. "At the end of last year, we had over $9 per share in cash and our stock was trading at about 14. Our working capital was $300 million—more than our total book value and more than our total long-term debt."

Fuqua flips open a just-published annual report. "If we had to raise money quickly we could do it," he explains. "We have almost no current debt, and we have $250 million of available credit." Fuqua cites two reasons for his preoccupation with cash: his desire to acquire something very big and the uncertain economy. "I'm not really a pessimist, but the company's liquidity gives me great comfort."

In the past, of course, Fuqua Industries

a Industries Chairman J.B. Fuqua
your eye on the cash.

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has been known as a highly lever outfit, and J.B. Fuqua has been a advocate of doing things with other ple's money. "I still am," he insists, our maturities are spread out. We d have any that are current." The spr ing out of maturities was accompli in part by $80 million in favorable nancing over the past two years, w was used to pay off short-term bank d

Fuqua has also shored up his bal sheets through divestitures. "We those operations that are not giving proper return," he says. "What used t a proper return when interest rates low is not proper any longer."

Fuqua has been selling his broadcas erations—three television stations

"We've been operating cons vatively over the past t years, getting ourselves in liquid position. At the end last year we had over $9 p share in cash."

year and now two small radio statio for very different reasons. It wasn't cause they weren't profitable. If anyth they were too valuable. "We couldn' ford to own those businesses," he plains. "The TV stations had an afte return of about $3 million and we them for $60 million. That's 20 ti earnings. At the time, our stock was ing at maybe 4 or 5 times earnings."

Fuqua's biggest recent deal, hov er, was the spinoff last Noven of the Interstate Motor Fre System, one of the largest trucking c panies in North America. With move, Fuqua not only rid himself capital intensive operation that was suming cash rather than generating i also got rid of $45 million in long-t debt on its balance sheet and $24 mil in potential writeoffs stemming f trucking deregulation. "That would b flowed through as a loss," he expla "A big visible loss that no one w have understood."

More recently, Fuqua negotiate deal to sell Hawthorn Mellody, a d in Schaumburg, Ill. "We got that c pany when we acquired National In tries, in 1978," he explains. "We alw intended to sell it because ret aren't high enough in the dairy b ness." The sale will bring in $12 lion in cash and notes.

With this and much more gone, wh left of Fuqua Industries? At the mom Fuqua is particularly happy with chain of 300 Martin movie theaters, ted throughout the South. They a his fastest growing or his most profit business, but they have a special att tion: They throw off lots of cash. " only up-front investment is popc

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peanuts and soft drinks," he exp
"You take in money all week an
your rentals and salaries at the end.

A more obvious star is McDon
Power Equipment, which makes p
um-price Snapper brand lawn and g
tools. "Its sales increased 10% last
and we brought down 20% pret
we've done every year for the pa
years," Fuqua explains. Another w
is Colorcraft Corp., a photo-fini
business. "It has grown in the 15
we've had it, from $3 million a y
$110 million, and we are continui
expand," says Fuqua.

The biggest contributor to Fuqua
enues, however, is Lano, a petro
distributor that does business in T

"We sell those operations t are not giving us a proper turn. What used to be a pro return when interest r were low is not proper longer."

Louisiana and Oklahoma. Its oper
earnings shot up dramatically in
from $25 million to $124 million, la
because of a tight supply market
rising prices, but they deflated ju
quickly last year to $31 million. F
however, thinks of Lano in diff
terms entirely: "It is both literally
figuratively liquid," he explains.
have $180 million in inventories a
ceivables and we could get all our m
out in 60 days. It's an extremely
investment."

There are, of course, other co
nies in Fuqua's portfolio—a
fabricated-home builder, r
processors and sporting goods man
turers that make everything from b
ing balls to athletic socks. But he r
ly likes to talk about the busin
he's interested in now. Those
change in a flash if they don't mee
expectations or if new opportu
seem more exciting. It boils dow
this: What investors are really be
on with Fuqua Industries is the sk
J.B. Fuqua.

Don't underrate that. Fuqua,
owns just 4% of Fuqua Industries' s
already has immortality of sorts: H
cently gave Duke University $10
lion, and its business school is
named for him. Despite his palaver
socking away cash for acquisitions,
ever, J.B. Fuqua might actually be s
ing up his balance sheet for anothe
son. Too shrewd a negotiator to l
his wares, he seems surprisingly r
tive to being acquired. "While I'm
tainly not seeking anybody to take
the company, if someone offered a
that was sufficiently attractive I w
not try to hold out." ■

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How to read an annual repor

By Jane Bryant Quinn

International Paper asked Jane Bryant Quinn, business commentator for the CBS-TV Morning News, columnist for Newsweek, and author of Everyone's Money Book, to tell how anyone can understand and profit from a company's annual report.

To some business people I know, curling up with a good annual report is almost more exciting than getting lost in John le Carré's latest spy thriller.

But to you it might be another story. "Who needs that?" I can hear you ask. *You* do—if you're going to gamble any of your future *working* for a company, *investing* in it, or *selling* to it.

Why should you bother?

Say you've got a job interview at Galactic Industries. Well, what does the company do? Does its future look good? Or will the next recession leave your part of the business on the beach?

Or say you're thinking of investing your own hard-earned money in its stock. Sales are up. But are its profits getting better or worse?

Or say you're going to supply it with a lot of parts. Should you extend Galactic plenty of credit or keep it on a short leash?

How to get one

You'll find answers in its annual report. Where do you find *that?* Your library should have the annual reports of nearby companies plus leading national ones. It also has listings of companies' financial officers and their addresses so you can write for annual reports.

So now Galactic Industries' latest annual report is sitting in front of you ready to be cracked. How do you crack it?

Where do we start? *Not* at the front. At the *back!* We don't want to be surprised at the end of *this* story.

Start at the back

First, turn back to the report of the *certified public accountant.* This third-party auditor will tell you right off the bat if Galactic's report conforms with "generally accepted accounting principles."

Watch out for the words "subject to." They mean the financial report is clean *only* if you take the company's word about a particular piece of business, and the accountant isn't sure you should. Doubts like this are usually settled behind closed doors. When a "subject to" makes it into the annual report, it could mean trouble.

What else should you know before you check the numbers?

Stay in the back of the book and go to the *footnotes.* Yep! The whole profits story is sometimes in the footnotes.

Are earnings down? If it's only because of a change in accounting, maybe that's good! The company owes less tax and has more money in its pocket. Are earnings up? Maybe that's bad. They may be because of a special windfall tha won't happen again next year. The footnotes know.

For what happened and wh

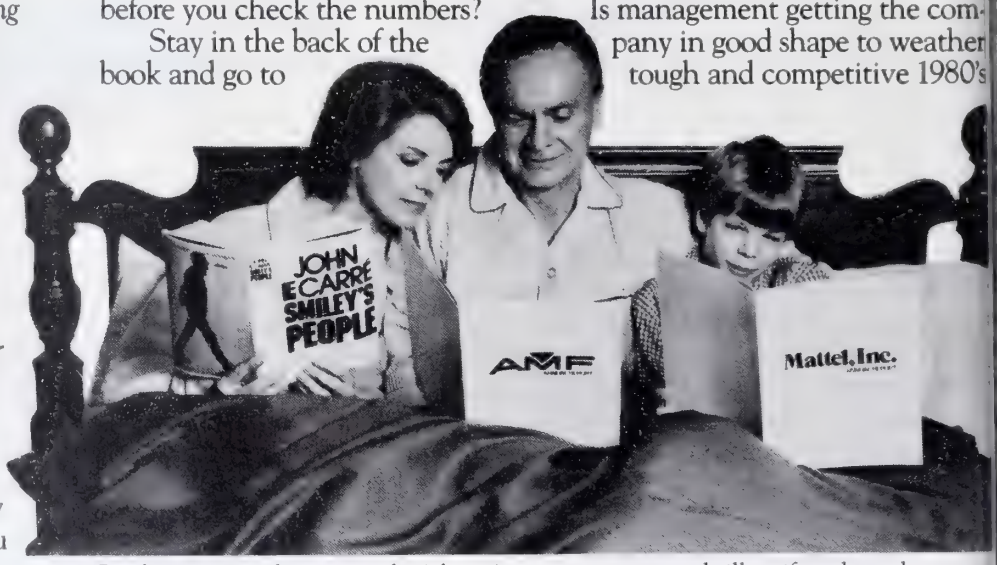
Now turn to the *letter from the chairman.* Usually addressed "to stockholders," it's up front, and *should* be in more ways than on The chairman's tone reflects th personality, the well-being of hi company.

In his letter he should tell y how his company fared this yea But more important, he should you *why.* Keep an eye out for se tences that start with "Except fo and "Despite the..." They're clu to problems.

Insights into the future

On the positive side, a chairma letter should give you insights into the company's future and it *stance* on economic or political trends that may affect it.

While you're up front, look what's new in each line of busin Is management getting the company in good shape to weathe tough and competitive 1980's



"Reading an annual report can be (almost) as exciting as a spy thriller—if you know how to find the clues. I'll show you how to find the most important ones here."

Now—and no sooner—should you dig into the numbers!

One source is the *balance shee* It is a snapshot of how the comp stands at a single point in time. C the left are *assets* – everything th company owns. Things that can

ly be turned into cash are
t assets. On the right are
ies—everything the company
Current liabilities are the debts
n one year, which are paid out
rent assets.
he difference between current
and current liabilities is *net*
ng capital, a key figure to
n from one annual (and quar-
report to another. If working
l shrinks, it could mean trou-
One possibility: the company
not be able to keep dividends
ng rapidly.

Look for growth here

holders' equity is the difference
een total assets and liabilities.
he presumed dollar
of what stock-
rs own. You want it
ow.
nother important
er to watch is *long-*
debt. High and rising
relative to equity,
e no problem for a
ng business. But it
s weakness in a com-
that's leveling out.
e on that later.)
he second basic source of
ers is the *income statement.* It
s how much money Galactic
or lost over the year.
Most people look at one figure
It's in the income statement at
ottom: *net earnings per share.*
h out. It can fool you.
ctic's management could boost
ngs by selling off a plant. Or
tting the budget for research
dvertising. (See the foot-
!) So don't be smug about net
ngs until you've found out
hey happened—and how they
happen next year.

Check net sales first

number you *should* look at first
income statement is *net sales.*
ourself: Are sales going *up at a*
rate than the last time
d? When sales increases start
w, the company may be in
le. Also ask: Have sales gone
ter than inflation? If not, the
any's *real* sales may be behind.
ask yourself once more: Have
gone down because the com-
is selling off a losing business?
If so, profits may be soaring.

(I never promised you that figuring out an annual report was going to be easy!)

Get out your calculator

Another important thing to study today is the company's debt. Get out your pocket calculator, and turn to the balance sheet. Divide long-term liabilities by stockholders' equity. That's the *debt-to-equity ratio.*

A high ratio means that the company borrows a lot of money to spark its growth. That's okay—*if* sales grow, too, and *if* there's enough cash on hand to meet the payments. A company doing well on borrowed money can earn big profits for its stockholders. But if sales fall, watch out. The whole enterprise may slowly sink. Some companies can handle high ratios, others can't.

"For inside information, an annual report is second only to meeting with the brass behind closed doors. Come on in!"

You have to compare

That brings up the most important thing of all: *One* annual report, *one* chairman's letter, *one* ratio won't tell you much. You have to compare. Is the company's debt-to-equity ratio better or worse than it used to be? Better or worse than the industry norms? Better or worse, after this recession, than it was after the last recession? In company-watching, *comparisons are all.* They tell you if management is staying on top of things.

Financial analysts work out many other ratios to tell them how the company is doing. You can learn more about them from books on the subject. Ask your librarian.

But one thing you will *never* learn from an annual report is how much to pay for a company's stock. Galactic may be running well. But if investors expected it to run better, the stock might fall. Or, Galactic could be slumping badly. But if investors see a better day tomorrow, the stock could rise.

Two important suggestions

Those are some basics for weighing a company's health from its annual report. But if you want to know *all* you can about a company, you need to do a little more homework. First, see what the business press has been saying about it over recent years. Again, ask your librarian.

Finally, you should keep up with what's going on in business, economics and politics here and around the world. All can—and will—affect you and the companies you're interested in.

Each year, companies give you more and more information in their annual reports. Profiting from that information is up to you. I hope you profit from *mine.*

Jane Bryant Quinn

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Hernando Courtright is 76 and got his first job from A.P. Giannini, but he isn't slowing down. He wants to sell the Beverly Wilshire—so that he can buy it back.

The grand hotelier

Hernando Courtright at the Beverly Wilshire
To his friends, he's "Mr. Champagne."

Profiles

By Michael Kolbenschlag

HIS BLUE EYES FLASH AS HE thu
a dog-eared computer prin
"First we're going to form a
nership. Then we'll sell the hotel—
ing back an operating contract an
option to repurchase." The man d
the talking has the tone of a ge
planning a campaign. Actually, he's
nando Courtright, the 76-year-old o
of Los Angeles' Beverly Wilshire Ho

Courtright, who owns 33% of the
erly Wilshire, bought the hotel with
estate developer and Broadway prod
Roger Stevens in 1961 for around $8
lion. Today, Courtright, Stevens an
other ten investors are trying to sell
as much as $200 million. Even at
handsome price, however, Court
can hardly imagine doing without
Beverly Wilshire, which is not only
hotel but also his home. Still, he'll n
the sacrifice to improve cash flo
keep the grand hotel independent.

The trouble is not revenues. E
month they set a new record and
hotel averages 88% occupancy. The
erly Wilshire, unlike many other i
pendent hotels, has maintained its p
as a favored stopover for the rich an
royal. The King of Spain, the Princ
Wales, artists like Rubinstein and
eyev—all are loyal guests of Court
and his staff of 850. With average r
rates of $120 a night, the Beverly
shire brings in more than $30 milli
year. Before taxes and depreciation
leaves a profit of about $17 million—
bad for a 533-room hotel.

After 20 years under Courtright's
trol, however, the Beverly Wilshire h
serious economic problem. The hot
running out of depreciation. "The p
lem is that Uncle Sam has his han
deeply in my pocket that, from an
vestment point of view, it has all bec
very frustrating," says Courtright,
does some quick calculations with a
cil. Unwilling to reveal the Wilshire's
Courtright speaks in hypothetical te
"Say we have $5 million to $6 mil
pretax. By the time we've paid corpo
taxes, and then personal taxes that ar
in the 75% bracket, there's ab
$360,000 left for the shareholders.
has become ludicrous." Actually, Co
right's net, 6% of revenues, is better t
the 4% to 4.5% industry average.

But, because of its low depreciat
charges, the Beverly Wilshire's c
bined federal and state tax bracke
now 58%, compared with the 4
maintained by most of the big cha
"No one is getting rich in the hotel b
ness, but the big chains have depr
ation schedules and investment tax c
its to keep taxes down and keep

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Siemens. On the scene.

business lucrative," says Randell Smith, associate director of research at Laventhol & Horwath.

Courtright's bind comes despite his spending an average of $200,000 per room in expanding and refurbishing the Beverly Wilshire since 1972. The fabric wall coverings are by Stroheim and Romann, the marble is Rouge Incarnat and Tinos Vert Carrara, the carpets are by Karastan. The Beverly Wilshire is one of the few hotels ever to have been featured in the prestigious *Architectural Digest*

So far Courtright has spent some $30 million on his remodeling. About half of that depreciation has been used up, leaving $15 million or so, which is barely one-twelfth what it could be for an owner that paid the current market value. Courtright, in fact, knows that his would-be competitors will never be able to afford the kind of luxury he has built over the years—even if he can no longer depreciate it.

Courtright outside the Beverly Wilshire lobby

Building cash flow is the solution to his problem.

Now Courtright wants to unlock the depreciation and tax-constrained cash flow of the Beverly Wilshire. "Becoming a partnership will solve the corporate tax problem," says Courtright. "And by selling with the option to repurchase we will set the stage for regaining our depreciation at a later date." This also means that Courtright will stay on and run his beloved Beverly Wilshire.

So far he has turned down offers for as much as $135 million from such rivals as Trans World Corp. and Pan American, who weren't interested in repurchase agreements. But eventually the right buyer will come along. "Right now we're locked into the hotel and can't get the value out," says Courtright. "T what has happened to a lot of inde dent hotels. But by doing what's righ cash flow we'll head off major prob before they develop."

What Courtright can do, of cours manage a hotel with a style and that no chain can match. The Be

Mayflower means moving our personnel from Dallas to Denver. From Memphis to Fort Worth. From Boston to D.C. On time.

hire's owner is a mustachioed, debo- executive whose name is a perennial est-dressed lists. He is among the n's last great hoteliers. His counter- that have thrown in the towel are n. Edwin Brashears Jr. has sold the e in Chicago, Ben Novack has left Fontainebleau in Miami. The Ari- Biltmore in Phoenix is now a West- /estern International) hotel, and the us Pierre in New York reports to in's Trust House Forte group.

r those independents who have led the auction block there is little elebrate. In 1981 nearly all the big chains are expanding in center-city ions as they go after the deluxe hotel that had long been the province support of the independent hotel. iott is going into downtown Den- Westin this month opens a deluxe in Cincinnati, and Canada's Four ons Hotels Ltd. is exploring the pos- ty of putting up a posh place across street from Courtright's select spot 'ilshire Boulevard in Beverly Hills.

the tradition of César Ritz and Luci- loomer of the Waldorf-Astoria in York, however, Courtright has led personal charm and business Who else would greet the emperor pan with a 15-piece mariachi band en yachtsman King Olav of Norway a gangplank? The personalized li- plate on his black Rolls Silver

In the tradition of Cesar Ritz and Lucius Bloomer of the Waldorf-Astoria, Courtright blends personal charm and business flair. Who else would greet Japan's emperor with a 15-piece mariachi band or King Olav of Norway with a gangplank? The license plate on his black Rolls Silver Cloud reads PADRINO.

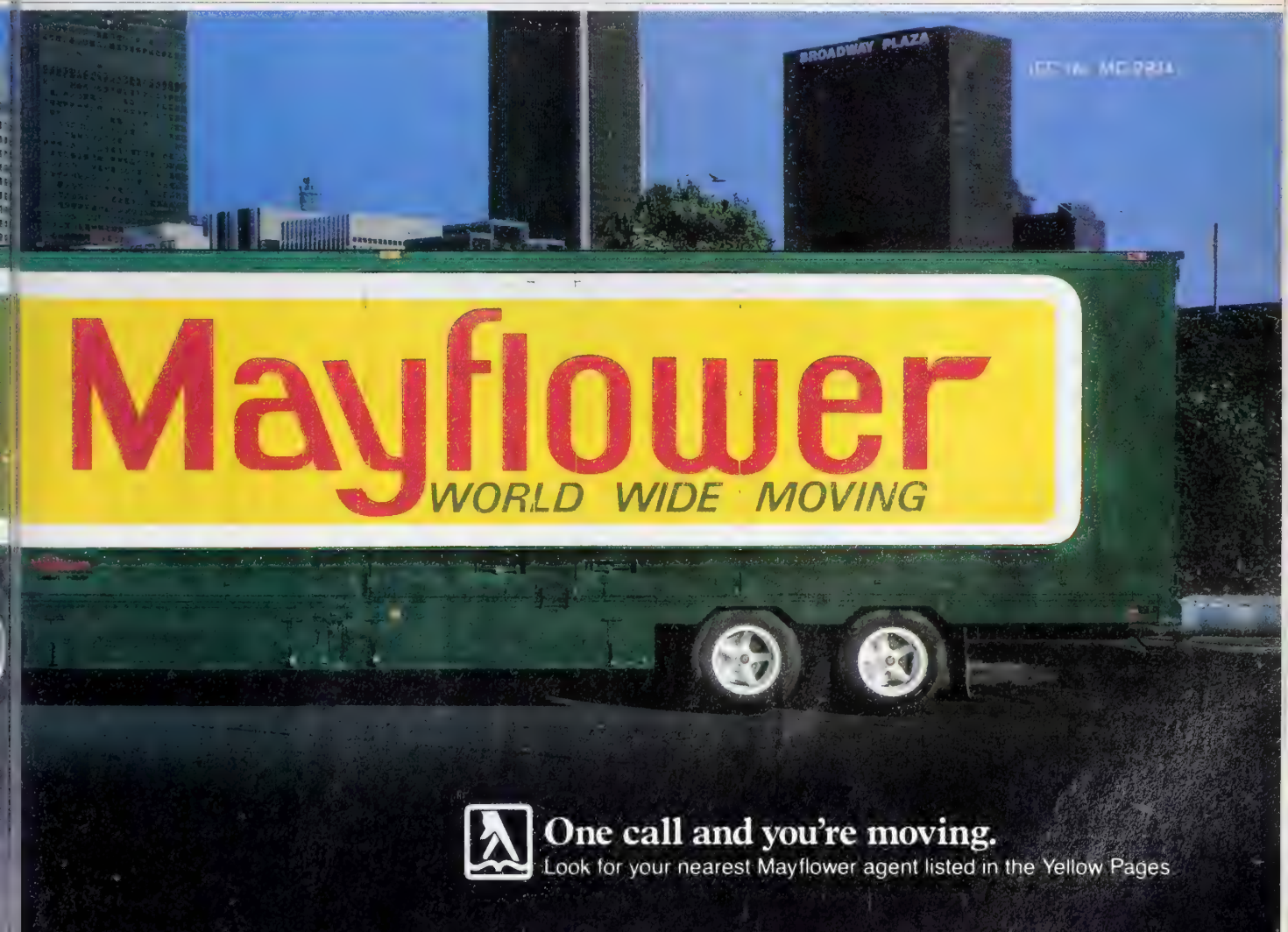
Cloud bears the name PADRINO, his official title as "Godfather of Los Angeles." Others know him as "Mr. Champagne" for his habit of welcoming guests with bottles of bubbly.

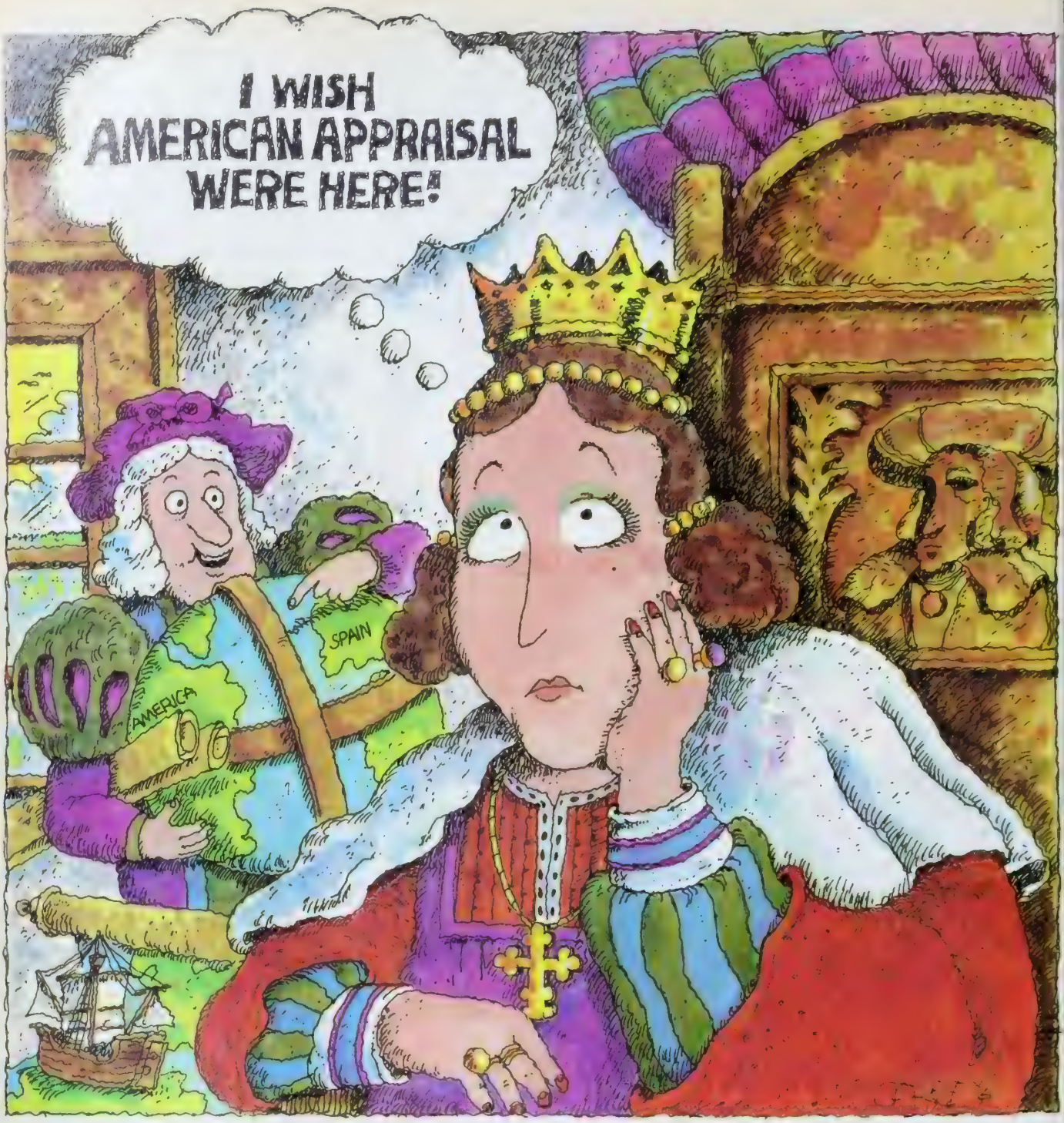
Courtright, however, wasn't always at home with such luxury. He was born in Coeur d'Alene, Idaho in 1904. His polyglot Basque-Irish-Dutch family includes the wealth of Spanish dons and successful European merchants. Unfortunately, recalls Courtright, none of the wealth was on his side of the family. So he set a goal to get rich on his own. That led to his first disappointment. Courtright was studying law at the University of California at Berkeley when he began to go deaf in his sophomore year. He faced the reality that he would never be a lawyer.

But there were other ways of making money. "I was good with figures," he recalls. "I thought there might be something for me in banking." There was, and a neighborhood chum named Mario Giannini helped him get it. Mario's father, A.P. Giannini, ran a small bank called the Bank of Italy, soon to be renamed the Bank of America. A.P. Giannini gave Courtright a job in his corporate banking department. "It was there working with Giannini that I learned an important lesson," says Courtright. "Don't get lost in a balance sheet. Keep your eye on cash flow and the rest will take care of itself."

Courtright also learned another important lesson at the fledgling BofA. Corporate banking in the 1930s was a backwater and hardly the route to wealth he had hoped for. Before long, however, an opportunity for another detour presented itself and Courtright quickly took it.

As chairman of a BofA bondholders' committee, Courtright one day foreclosed on an obscure boardinghouse in Beverly Hills called the Beverly Hills Hotel. Jules Stein, the head of Music Corp. of America (now MCA), had toyed with the idea of buying the hotel and giving it to one of his young lieutenants named Lew Wasserman to operate. But Stein decided the Beverly Hills Hotel was a bust and Wasserman never got his chance. Courtright saw the hotel differently. While there may not have been





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alth in corporate banking there were nds. They included Harry Warner of rner Brothers, Joe Schnitzer of RKO l a couple of other Hollywood friends. artright convinced them to buy the erly Hills Hotel for $1.5 million. He rowed his $75,000 share of the investnt from friends at BofA.

n Courtright's care the Beverly Hills tel blossomed. A swimming pool surnded by cabanas, the first in southern ifornia, was added. The Polo Lounge s built around an old polo trophy that s given to Courtright by a polo pal. en Courtright decided to sell the hoin 1956, his fortune had been made. Over the years he had turned a $75,000 investment into a 25% holding in a hotel that sold for $6 million. He and MCA Chairman Wasserman still laugh about the opportunity that MCA missed.

Next came an operation that restored his hearing. And then several years when he could enjoy his newfound health and wealth as part owner of a wine chateau in France and president of an unknown but promising real estate development on the back lot of Twentieth Century-Fox called Century City.

Meanwhile, the Beverly Wilshire, built in 1928, was in decline. Hotel experts had given up because the building's single, small entryway opened onto congested Wilshire Boulevard. But Courtright saw an opportunity. Turn the hotel around by constructing a new rear wing and building a dazzling entry between the two. Today that entrance, with its Louis XV bronze and iron gates and gas lamps from Edinburgh Castle, is more famous than the Polo Lounge itself.

At times, money for such extravagant expansion was in short supply. In 1972 Courtright sold the land under the hotel to the BofA to raise $5 million to keep his renovation going. "I made only one mistake," he says. "I should have sold both the land and the hotel and raised even more cash. If your judgment is right you can always buy assets back." Hernando Courtright did just that—buying the land back from BofA in 1975.

If he can find the right purchaser, he'll get another chance this year. ■

e fertilizer cycle will not happen in the way at the market anticipates, says IMC's Dick non, but he has found an offset anyway.

"We won't go very far down"

By Larry Marion

IX YEARS AGO CHAIRMAN Richard A. Lenon of International Minerals & Chemical Corp., the world's est fertilizer company, set out to disify. He wanted to balance the cyclity of IMC's phosphate- and potashed fertilizers. So in 1975, a year of qualed earnings, IMC paid $120 mil in cash for specialty chemicals manturer Commercial Solvents Corp. In 7, with fertilizer prices in decline, as had predicted, Lenon bought a metalgical-coal mine for $50 million.

What happened? The specialty chemi barely broke even; the coal mine is he red, losing $6 million last year, h no turnaround in sight. But the ilizers have gained strength since 8. Today IMC is earning close to 25% ax in fertilizers, which should conute half of the company's $2.1 bil in sales and 70% of its anticipated 2 million earnings—$6 a share after 0-cent LIFO charge—in the fiscal r ending June 30. That represents a 24.5% advance on good 1980 earnings.

But the stock market, heeding industry announcements of new fertilizer plants, does not believe such success can continue. It knocked 25% off the price of IMC stock in the last three months. Lenon, 60, a 25-year veteran of the business, thinks The Street's fear of overcapacity is unfounded. The market, he says, is looking only at domestic fertilizer demand—scheduled to grow at less than 5% a year—and ignoring 9% demand growth overseas, where IMC gets some 30% of its sales. He is increasing IMC capital spending 32% this year, to $350 million, and plans to keep spending at $275 million—or higher—annually for the foreseeable future.

Meanwhile, Florida phosphate companies are planning to spend $2 billion by 1985. But announcements are one thing, finished plants another, says Daneb (Danny) Teleki, IMC's chief market forecaster. "A thicket of government regulations precludes fast expansion," says Teleki. "Up to 70 permits are needed to build a phosphate mine. It used to take 2½ years to build a mine, but now it takes more than 5." Meanwhile, IMC is well along on a $500 million joint venture with W.R. Grace to open a new phosphate mine in central Florida near their existing Mulberry facilities, which should play out over the next decade. IMC also is eager for the government of Manitoba province to approve a $600 million outlay for a new potash mine.

Lenon, who became chief executive of the Chicago-based company in 1971, reckons the oil companies are not about to swamp his market with overcapacity as they did in the late 1960s and mid-1970s. And his company is not a major factor in the nitrogen fertilizers of such big petrochemical companies as SoCal and Monsanto. IMC dominates the other two members of the triad of fertilizer materials, phosphate and potash, where the main competitors are Williams Cos., TexasGulf and Freeport Minerals. Lenon says: "Circumstances mitigate against the overcapacity of the early 1970s," when IMC earnings all but disappeared and its long-term debt soared.

Lenon has brought debt down to 33% of capitalization today. With cash flow after dividends running at $160 million last year, he will have to borrow about $150 million over the next few years to finance his ambitious capital plans. And, for a change, he can afford it.

But Lenon hasn't forgotten the early 1970s, nor his intention to balance the cyclicality of fertilizers. This time, though, he intends to accomplish that balance from within, not by acquisition. His vehicle: the growing field of animal medicine. IMC always had a hand in animal drugs, producing vitamins for calves as a by-product of phosphate. But with the 1975 Commercial Solvents acquisition it picked up Ralgro, a chemical used as a cattle growth stimulant. Ralgro was a commercial also-ran to the synthetic growth hormone diethylstilbestrol, or DES, then used in cattle although the Food & Drug Administration

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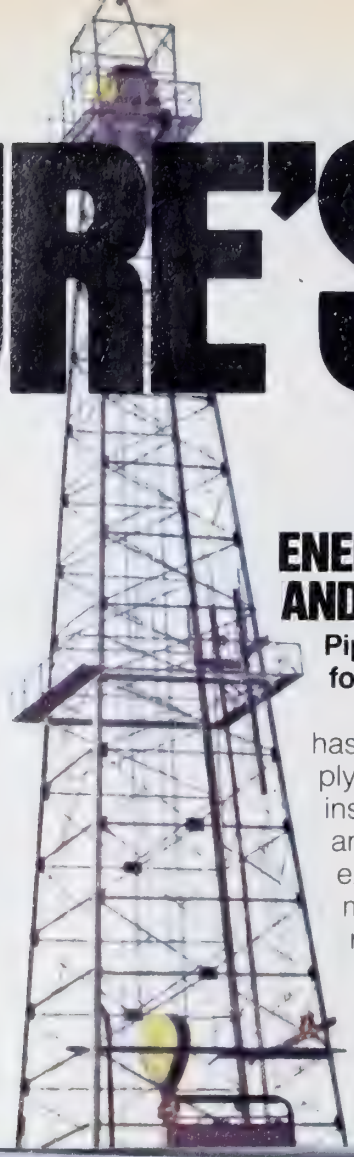

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"Ralgro's profitability," he says, "gives us confidence to do other things." With IMC's $200 million (sales) from animal drugs, Lenon plans to quadruple the research budget to $24 million by 1984. He has put out millions to support recombinant DNA research by Genentech and Biogen.

had banned it for direct human use.

As suspicions grew about the carcinogenic potential of DES, Ralgro's sales accelerated. The FDA finally took DES off the market in 1979 and Ralgro sales are now up to $30 million from $5 million when IMC acquired it.

More importantly, the product's success impressed and inspired Lenon. "Ralgro's profitability," he says, "gives us the confidence to do other things." With IMC getting $200 million in sales from animal drugs today, Lenon plans to quadruple the research budget in that field, to $24 million by 1984. He has already put out several million dollars to support research by Genentech and Switzerland-based Biogen into ways to use recombinant DNA to produce animal vaccines and natural cattle hormones. "We're combing university laboratories around the world," says Lenon.

Cattle stimulants based on recombinant DNA could be a $200 million market that IMC would share with such firms as Monsanto and Pfizer. Lenon sees animal drugs, growing 20% a year, as a major contributor to IMC's future earnings, and an ideal diversification because of low capital demands compared with capital-intensive fertilizers. "Ralgro can be made in my office," he remarks.

Meanwhile Lenon is cleaning up debris from earlier diversification. He has sold parts of Commercial Solvents, and says of the coal mine: "It's going beautifully. If you had the money you might get it before we let you out of the room."

Fertilizers are so good right now that Lenon is anticipating a 12% earnings-per-share gain in fiscal 1981 despite a 70 cents-a-share charge for switching to LIFO accounting. But the company has known such earnings growth before, only to suffer decline when fertilizers again hit their inevitable cycles. Now Lenon foresees animal drugs that will help ensure stability for the 72-year-old firm. "We will not, as a company, ever go way up in earnings, even in an extraordinary period of prosperity like today. But we won't go very far down, either," says Lenon. Judging from the beating Lenon's stock has taken lately, Wall Street not only has discounted 1981's good news in fertilizers but is taking a wait-and-see attitude on the stability as well. ■

Petrolane's boss bet wrong on LPG, but that didn't stop him from boosting earnings or from still hoping for a payoff.

"Don't say white elephant"

Petrolane's Rudy Munzer on a drilling rig off Seal Beach, Calif.
"A Good Housekeeping seal and a sales force to spread the gospel."

By Kathleen K. Wiegner

EVERY TIME CHAIRMAN Rud Munzer of $1.4 billion (rever Petrolane Inc. drives along Harbor freeway near Los Angeles Ha he sees the white dome of one of liquefied petroleum gas terminal built in 1973. He anticipated a sur demand for LPG, the bottled gas fam to folks in rural areas but not n known to city types anymore.

The surge never came for LPG— propane or butane distillate of na gas—despite the fact that propan cheaper than gasoline. Unfamiliarity part of the problem. "A few years people didn't even know what was," says Munzer. "There aren't fa ties sitting on every corner. Wha have to do is offer the customer en saving to justify putting the additi investment [roughly $1,000] into verting his truck and justify his gr inconvenience in fueling." So Mun LPG terminals, the one in California another in Rhode Island, built at a co $15 million, are running at only 30 capacity.

But the dream of widespread LPG is only deferred, not denied, Munzer, 63, who has run Petrola founded in 1928 as an LPG distribut since 1956. "Don't call those termi white elephants," he cautions For "They are potential gold mines. W decontrol [of propane and butane] have the pricing and we have the su Everything's in place. Now all we ha do is go out and convince the user to it." LPG sells at 50 cents a gallon than gasoline, on a comparable Btu b Munzer reckons that other truck u will follow the lead of Frito-Lay and Los Angeles *Times*, which fuel t trucks with LPG, and that by 1983 will be making a "significant" impac Petrolane's growth.

As it is, the product doesn't do badly, contributing over 25% of the s and about 20% of the earnings, estim ed at $96 million in the fiscal year ends Sept. 30, up from $74 millio fiscal 1980.

But Munzer hasn't spent his t waiting for the LPG ship to come Since the late Sixties he has been div fying, at first seemingly at random. acquired Stater Bros., a southern Cal nia supermarket chain, in 1968. In 1 he bought the Raleigh Hills alcoholi habilitation centers and followed tha buying Mark C. Bloome tire stores. he had method. Those operations w acquired to enhance Petrolane's c flow and increase its equity base to al for more debt, so that Munzer could p Petrolane into oil services.

Supermarkets or oil services, the no knocking the results. Petrolane only one year-to-year decline in earn

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(1973) in Munzer's 25-year tenure at the top. Since 1973, despite the lag in LPG, the company has racked up 26% annual earnings-per-share increases.

In the early Seventies Munzer moved into oil services, at first with mixed results. He bought a company that ferries crews and supplies to offshore rigs, a directional driller that had success in the North Sea and an outfit that fishes oil tools out of wells. He also picked up, and later discarded, an offshore construction company and a diving company. He bought some crude-oil tankers and later sold them at a loss. An air service for Indonesia's oil and gas fields never mushroomed as he had hoped, and it too was sold. "We have tried to build a company so that if anything goes wrong over here, we have an offset over there," says President John Wallace, who has been with Petrolane about as long as the Minnesota-born, Stanford-educated Munzer.

But so rampant has been the growth of oil exploration and so successful Munzer's late 1970s acquisitions in oil service that the company has been hard put to find a clinker to offset. In 1977 and 1978 he acquired for $49 million in cash, notes and stock, two drilling contractors: Brinkerhoff Drilling, the largest Rocky Mountain-based driller, and Signal Drilling. With 40 rigs under contract in the Overthrust Belt, Brinkerhoff-Signal along with Petrolane's other petroleum services last year contributed $79 million in pretax income—52% of the total.

Now Munzer and Wallace are on another acquisition spree. Since last October they have picked up four oil service companies. Grant Geophysical Co., Loxco Inc. and Globe Universal Sciences, renamed GUS Manufacturing, provide seismic crews and equipment to the search for oil and gas. Air Drilling Service, a small company, uses compressed air instead of drilling mud in places like the Rockies.

How does Petrolane attract these outfits, which, small as they are, happen to be in the hottest area of the U.S. economy? Munzer explains that he offers cash, reputation and marketing. Air Drilling is a good example. "We believe that about 5% of wells being drilled could use compressed air," says Munzer. "But here was this guy who could never expand to get that 5%. He was working full tilt and running hither and yon, but never got up to where he was satisfying demand. Our function was first to give him financial capability. But also the Petrolane name gives air drilling, which is a new technology, sort of a *Good Housekeeping* seal of approval. And we have the sales force to spread the gospel."

Once a month, Munzer, Wallace and the presidents of Petrolane's three groups—LPG, Consumer and Petroleum Services—consider acquisitions. Munzer doesn't look at big companies; buying them might either dilute Petrolane stock or take so much cash that another lane company would suffer.

So he looks for a company wher rolane can bring something to the "If a company is short of money an dynamic area of our economy, it's a acquisition possibility," says Mu "Because then it's growing faster management can financially suppor growth." The next area he and his p are looking at is oil production an hanced recovery services.

Meanwhile, Petrolane's cash flo reached $129 million and the retail ations keep churning out steady ings. The supermarkets are under sure this year, so Munzer toned expansion there. But the alcoholic bilitation hospitals, which barely even for most of the 1970s, have su ly taken off. Last year the hos passed the Mark C. Bloome tire sto an earnings contributor. Consumer ucts gave Petrolane 23% of incom 45% of sales.

And the LPG business—v Munzer hopes to expand oversea two new acquisitions—doesn't much new investment to grow 7 8% a year. That, of course, is onl growth rate LPG has been achievi Munzer can convince truck fleet ow or even car owners, to convert tanks to propane, he'll have a bonan his hands, all the more welcome be so long deferred. ■

Once the Keck family treated outside investors with disdain—and with $3,000-a-share stock prices. Why the current rash of splits?

Packaging Superior for the public

By Howard Rudnitsky

FOR DECADES, SUPERIOR OIL, the nation's largest independent producer, was the highest priced company on the New York Stock Exchange. That's exactly the way the founding Keck family wanted it.

Superior was publicly owned, but run as if it were private. The Kecks shunned publicity, rarely talked to analysts and controlled over half Superior's stock. Keeping the price above $3,000 a share was an impressive financial barrier.

Then, in 1965, Superior's shares were split 10-for-1, primarily to ease the sale of stock from the late founder William Keck's estate. Yet even at $200 or $300 Superior was hardly on the bargain counter, and its shares stayed around that level for the next 14 years.

Over the past 19 months, however, Superior's directors have voted to its stock twice—each time 5-for-1. most recent action will be submitt shareholders at the annual meetin May and become effective in June.

As a result, Superior's stock sh soon trade near 50. Why this newf interest in lower share prices? Sin The Keck family is ending its 60 domination of the company. Howa Keck, the founder's son, is retirin June. He'll turn over the post of chai to Joseph E. Reid, a former executive president at Trunkline Gas Co., came to Superior in 1972.

Howard Keck isn't disappearing. family still controls 17% of Supe stock, and he is a director of the Foundation, which also holds a block of stock. Beyond that, Keck head the board's executive committ

Nonetheless, his departure is clea milestone for Superior. "The split broaden the market for the stock, r in a wider distribution of shares and erally create more public interest in company," says a spokesman. Super earlier split had already attracted ins tional investors. A few years ago held little stock in the company. T they hold close to 40%.

Superior needs the public today cause the $1.5 billion-a-year produce

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Superior Oil's Howard Keck and Joseph Reid
Loosening the reins after 60 years of family domination.

"Howard Keck wanted to be sure that the nonfamily management team now running the company does well and attracts top people. You do that with lots of options and a strong stock."

gone on a heavy spending binge. Somewhat belatedly, it is hell-bent on developing its vast oil, gas and minerals holdings in the U.S. and abroad. Last year Superior spent $983 million. It will spend over $1 billion a year for the next few years.

The Houston-based company used to be superconservative about borrowing, but not anymore: Long-term debt is now $760 million, up from only $85 million in 1977, and there is probably more financing ahead. Superior's management, in fact, may want to issue stock to support higher debt levels.

There is another reason for keeping stock prices low, however. "Howard Keck wanted to be sure that the nonfamily management team now running the company does a good job and attracts top people," says Donaldson, Lufkin & Jenrette's Kurt Wulff. "You do that with lots of stock options and a strong stock." This past February, for example, Fred Ackman, formerly an executive vice president at Exxon, joined Superior as chief operating officer. When Reid replaces Howard Keck in June, Ackman will become president. He has options on 30,000 shares of Superior stock. Reid, meanwhile, owns 6,000 shares and has options on an additional 46,000.

In the final analysis, a producing company's stock rises because it is able to replace production. Recently, Superior has done just that. What about the future? Analysts like Wulff and Frank Reinhardt, a partner of Carl H. Pforzheimer & Co., figure Superior is well poised to continue its growth. Says Reinhardt: "They've got a strong position in offshore natural gas in the Gulf of Mexico, particularly in the Sabine Pass area. With gas prices expected to rise sharply decontrol and with the U.S. tu more to domestic sources for crud plies, Superior could come close tc bling its earnings over the next fc five years." If so, presplit earnings v be in excess of $25 a share.

Superior Oil's stock may have al discounted some of this. At around it sells at about 14 times estimated earnings and about 8 times cash f hardly cheap relative to other ind dents. Another way to measure w producing company is worth is b value of discounted cash flow. For S or that comes to around $6.5 billi some $270 a share, nearly 35% abo recent stock price. The gap be price and value has narrowed sinc stock spurted in late 1979.

But Superior may have some und ued assets too. In January 1980 ma ment issued 5.3 million shares (over $500 million) to buy the 48 Canadian Superior Oil the con didn't already own. As a result, analysts assume Superior will ho Canadian interests—despite the h attitude of the Trudeau govern "Those Canadian reserves and ac could prove very valuable in the fu says Wulff. "Governments have a v changing every few years."

Wulff, in fact, thinks Superior's dian assets, which include coal, and unexplored oil lands, are wortl $2 billion. And the Canadian go ment is hardly likely to offer such a price. But Superior may still have tunities in Canada that would wor if its stock were widely held. Invest banker Joe Tovey points out that la Toronto's Brascan made an offer f perior's 53% stake in McIntyre Mi coal mining company. Manageme fused—but perhaps not forever.

If the right corporate buyer tur Tovey figures, that purchaser could McIntyre stock with Superior to through a tax-free exchange. "Tha advantageous way to effect such a he explains, citing International ties' handling of its sale of a Car subsidiary last year.

Superior's shares have more tha bled in the past 18 months. By mid- however, they had dropped below from last fall's high of $251. Those tions may concern management an investors, but they hardly bother holders who bought in five years ago for the Keck family, which has c shares since Superior was found 1921, current moves are insignifica

Understandably, they would like Superior continue to prosper. But Howard Keck retires, he isn't go lose much sleep if the Keck holdin worth $1 billion, $1.2 billion or million. His family is already amo dozen or so wealthiest in the coun

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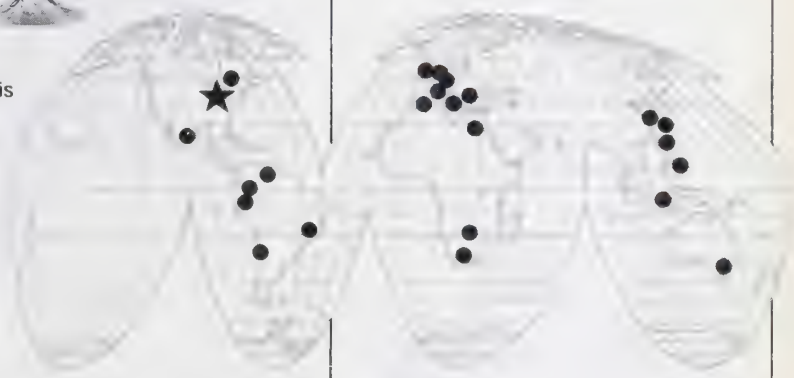
Fine glass tableware is a growing part of our international product mix.



To The World's Health

For example, we've utilized our Kimble Division's health care packaging technology in our affiliate in Indonesia, P.T. Igar Jaya.

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O-I has operations in 23 countries outside the U.S.

The world is sold on these famous international brands. And the brands are sold in O-I glass containers.

Positioned For Growth

We're also making Scotch bottles in Scotland, paper and plastic food service products in Australia, and glass tableware on three different continents.

O-I is plastic cups in Japan, pharmaceutical containers in Germany, window glass in Venezuela.

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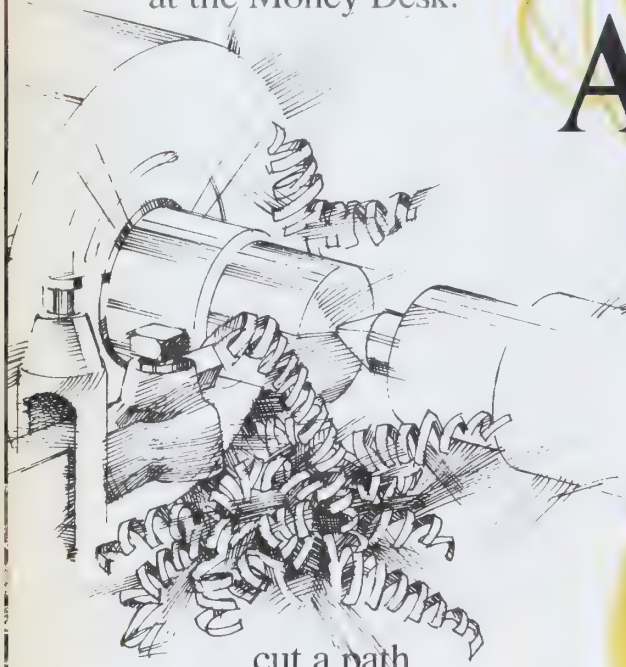

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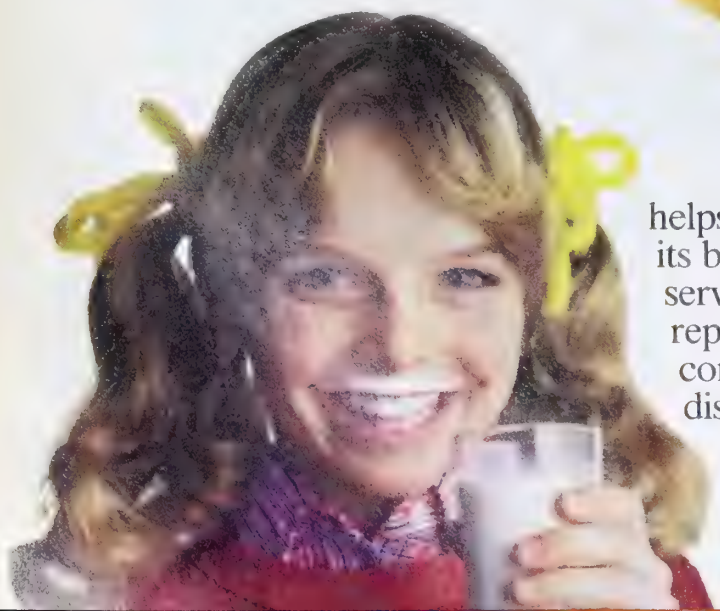

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the machines of the Eighties are bigger, y'll need more hydraulics: good news for arket leader Parker-Hannifin.

Powerful connections

By Thomas Jaffe

WENTY-SIX YEARS AFTER HIS father's untimely death in 1945, 41-year-old Patrick S. Parker took as chief executive of Parker-Hanni- the company his father had founded 924. A rather highly leveraged, $194 ion (sales) hydraulic-parts supplier ing just 9.4% on stockholders' equi- n 1971, the company would have n an attractive acquisition candidate ny number of corporations. But after ears running P-H's very profitable s division on the coast, and 2½ more ompany president, Pat Parker wasn't rested.

was pretty aggressive at the time," the lanky, athletic Parker, now 51. ere seemed to be a lot of opportunity rowth out there."

rker was right. Today, with sales of $1.1 billion, Parker-Hannifin ranks as the country's largest independent supplier of fluid systems and components to the industrial, aviation and automotive markets. With a return on equity averaging just under 18% since 1976, P-H ranks as one of the proud survivors in the takeover-prone industrial equipment industry. While Parker has made some 35 acquisitions over the past decade, they have added comparatively little to this profit growth, which would have increased around sixfold internally. Part of the reason is that half of them were in the automotive field.

"We recognized that the automotive business may not be as great as it was when we started acquiring in 1972," he says. "But to be a real factor as a supplier of automotive parts, you have to be able to provide up to 10% of a distributor's requirements. So we decided to continue our acquisition program."

But if Parker-Hannifin's profitability has been merely average in its industry lately because of the depressed automotive market (about 17% of sales), that should not mask how shrewdly Pat Parker has positioned his company to take advantage of an upturn in his markets next year.

"We're really a parts manufacturer," explains Parker, who supplies everything from flexible hoses and cylinders to pumps and valves. "We have been adamant about never going into an end-use item and competing with our big integrated customers. John Deere and Caterpillar make pumps. International Harvester makes valves, as does Deere. What big customers would rather buy from us is something like fittings, which they neither have the facility nor the wherewithal to make themselves. We manufacture a couple hundred fittings of different sizes and shapes, and we can produce them by the millions."

It was a strategy that Parker inherited and, fortunately, didn't tamper with. Faced with the wide array of small markets, many of which were already serviced to some extent by customers themselves, Parker-Hannifin inevitably got more and more into the industrial replacement market. "During the Sixties, under my predecessors 'Ghost' [S. Blackwell] Taylor and Robert Cornell, we said, 'Parker would like to become the General Electric of fluid power.' Shortly before I came on, the business had become more than 50% industrial."

While industrial products today account for more than 60% of sales and earnings, there's more to P-H than being a parts supplier to Deere, Caterpillar and the like. Since World War II, it has manufactured fuel and control systems for the aviation industry. The aerospace market still represents nearly 25% of P-H's business. As Parker quickly points out: "The source of our knowhow really is aircraft technology. That's where the usefulness of hydraulics as a practical tool was first shown. This has been a kind of ongoing thing here, so the flow of technology out of aerospace into industrial applications was a natural for us."

Pat Parker's fondness for that background—on leaving the Navy in 1957 he became a production planner at then-$4 million (sales) Parker Aircraft in Los Angeles—is apparent as he reaches over to his office credenza and picks up the five-pound "spider," a manifold assembly P-H builds for the main flight control of Sikorsky's Black Hawk helicopter. "It's a complex, exotic little piece of electric remelt stainless steel," says he admiringly. "Bulletproof. You can fire a 37mm shell at this thing and it will function after being hit."

Nor has Parker let P-H sit on its technological laurels. In 1978 he paid $36 million in stock to acquire Bertea, a $46 million California manufacturer of aero-

man Patrick Parker of Parker-Hannifin ***ith the flow.***

space electrohydraulics. In three years he has pumped about $30 million into Bertea, whose sales now exceed $100 million. "Bertea has been making very sophisticated hydraulic components for 25 years," says Parker. "If you take a look at an aircraft system with the automatic pilot in the cockpit controlling it through the takeoff, the flight pattern and the landing, what you're talking about is one of the world's biggest, most expensive robots."

The notion of fluids substituting for human muscle is almost as old as the Parthenon. Archimedes, whose treatise on hydrostatics is one of the rocks on which all hydraulic engineering rests, would have no trouble seeing the kinship between the pump for the hydraulic actuator that controls a Boeing 747's wing flaps and the one in the new implantable dispenser P-H has come up with that injects insulin into the body.

Parker envisions increasing the electronic tie-ins between engines, transmissions and hydraulics. "Everybody is redesigning their machines, from the plastics industry all the way to steel. Less manual, more energy-efficient, more productive. It opens up the ball game for us."

About the only place Parker hasn't made his concept of hydraulics transfer work successfully is in the company's about $200 million (sales) automotive parts division. Except for about $30 million in original equipment business supplying harnesses for General Motors air conditioners, P-H sticks strictly to the aftermarket with warning flashers, hose clamps, brake devices and the like. Starting in 1972, he built the division through a string of acquisitions in order to give P-H a countercyclical balance when his main markets turned down. Although this worked for a while, producing 30% of total earnings in 1976, the bloom has been off ever since, as automobile production slowed and distributors became reluctant to pay high interest rates to restock inventory. This year automotive will net only $6 million.

"We bought ourselves a full-line service capability so we could supply a parts distributor with up to 10% of his total requirements," says Parker. "While we completed this without ever having any idea of selling the business, it could be a very marketable asset."

If the auto market recovers and Parker decides to sell out, he might well use the proceeds to buy into yet another field where P-H's hydraulics expertise can play a role—medical devices. The company has been pouring over $2 million a year of its research and development budget (over $20 million in 1981) into the joint development of an implantable insulin dispenser for iabetics. The first test systems are being delivered now. Its pump is about the size of two nickels stacked on top of each other. P-H also is working on a plastic valving mechanism for colostomy victims.

In the final analysis, however, Parker is betting on a basic engineering concept: Fluid pressure is constant no matter where it's located, whereas mechanical systems must be more precisely engineered. So the bigger and more powerful machines get, the more important design them with sophisticated h lic controls. For market leader I Hannifin, whose shares trade at times this year's estimated earni $3.40 a share, a rebirth of capital ing has got to mean a bonanza 90,000-plus-item product line. ■

Fred Alger, a Sixties legend, was Bernie Co feld's top money man. After a decade of scurity, he's now managing nearly $1 bill in corporate pension assets.

Concepts revisited

By Nick Galluccio

The Money Men

FRED ALGER'S APPROACH to investing would surely have made Benjamin Graham wince. Alger doesn't care whether a stock sells at a premium over book or at a high price/earnings multiple. Instead, what he looks for in prospective investments is "the pleasant surprise, the serendipitous factor." Says Alger: "The big money comes from buying creative and exciting companies without worrying about prices. You can go broke buying cheap stocks."

That may sound ridiculous, but people seem to be listening. A S gunslinger who was once a money ager of Bernard Cornfeld's ill-fated of Funds, he is enjoying an astou comeback. His Fred Alger Manage Inc., which handled small acc through most of the Seventies, manages $900 million out of a sp

Sixties stock superstar Fred Alger
"You can never make money with formula investing."

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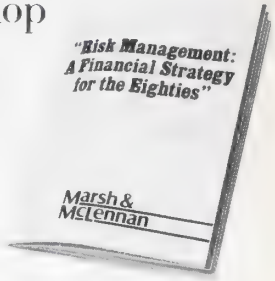

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furnished Wall Street office. Instead of swingers like Cornfeld, Alger's clients today are such sober corporations as Alcoa, B.F. Goodrich and Warner-Lambert, which give Alger a portion of their pension fund assets.

Alger, of course, promotes his firm by sending out scores of performance reports to prospective accounts and pension consultants, but it is his recent performance that has brought new clients to his door. Since 1976 Alger has chalked up a 34% compound annual return. That's more than twice as good as the Standard & Poor's 500. "It takes a unique thinker to get the kind of results he's demonstrated over the last five years," says Elizabeth Maes, Litton Industries' pen-

Alger Management's David Alger
"You make money buying vital, creative companies."

sion administrator, who recently swung some money Alger's way.

One of the reasons for Alger's newfound popularity, in fact, is his old reputation as a mythical stock picker. After a decade of indexing and random walk theory, his thinking is an appealing alternative to many pension managers—especially if they missed out on much of last year's roaring bull market. "You can never make money with formula investing," explains Alger, 46, a man who keeps his ideas fresh with a daily seven-mile jog in New York's Central Park.

Today Alger, his younger brother David, 37, and a team of eight highly paid senior analysts pick stocks that fall into two broad categories—companies undergoing what Alger calls "a life-cycle change" and those with high growth in unit-volume sales. "We haven't bought Wall Street research since 1970," says Alger, faithful to the philosophy that guided him in the Sixties. "You have to organize your portfolio around the half-dozen stocks that might do better than anyone anticipates them doing to maximize the chance of getting lucky."

Alger points to Monsanto as a classic life-cycle-change company. Until recently it produced low-margin commodity chemicals, thermal plastics and polyesters. But starting last year, the company wrote off its European thermal plastics and polyester business. It is now redeploying its assets into high-growth agricultural chemicals, which in 1981 will account for an estimated 65% of operating income. "We have a change from a very boring to an exciting company," says David Alger, who projects $11 a share for Monsanto in 1981, growing to as much as $20 in 1983. With all this, he points out, Monsanto currently sells at a bargain multiple of 6½ times its estimated 1981 earnings.

The Algers also see brokerage firms as classic life-cycle-change situations. They like Shearson Loeb Rhoades and E.F. Hutton. "Over the last five years there has been a 20% compound growth in the number of shares traded on the New York Stock Exchange," says David, who believes 50-to-100-million-share days will be common in the next couple of years. That would be a bonanza for brokerage houses. They are now automated and benefit from low fixed costs.

Alger is also buying Citicorp, which has been hurt in the consumer lending business because of interest rate ceilings. Now, however, he believes those usury restrictions are ending and Citicorp will be able to roll over its consumer loans at higher rates—a significant earnings boost. In retailing, the Alger brothers like Sears, Roebuck and J.C. Penney, both revamping their merchandising.

In the volume-growth category, the Algers recommend Computervision, a computer-aided design company. Though it sports a multiple of around 30 times 1981's expected earnings, the Massachusetts-based firm is growing a of over 50% a year. The scarcity o neers, David Alger feels, will continued success for the compa products increase productivity by tuting computers for pencils and prints. "Don't think cheap. Don't multiples," says David Alger. make money by buying vital, cr companies."

Other stocks high on Alger's li cause of growth potential include tronics outfits such as AVX and point. He also likes Digital Equip Floating Point Systems, Perkin-E Sony, Tandy, as well as Waste Ma ment, a waste disposal outfit. Amo oil service companies, another where Alger sees above-average gr he is buying Trico and NL Industr addition, he recommends contac makers Bausch & Lomb and Coope oratories, each of which is growi over 25% a year.

Fred Alger was born in Detroi father was a Michigan politician served as U.S. ambassador to Be under President Eisenhower. Alger was graduated from Yale and the U sity of Michigan Business School, on to become one of Wall Street's b est stars in the period between 196 1971, when he ran Security Manage Co.'s Equity Fund, ranked second i nation after Fred Carr's Enterprise Later he was hired by Cornfeld to ru Alger Fund, eventually liquidate cause of Cornfeld's financial troubl

During the Seventies, Alger kep investment business alive running n al funds and individual accounts. came the pension boom, and he gear his marketing efforts. "Large poo money were going into the hands o sion fund managers with inferior e records," he explains. "Our equity p mance was superior, so we decid move into that business." Today, requires that all trades be handled b in-house brokerage firm, an unusual tice that boosts his profits substanti

Anticipating the current oil glut, unloaded most of his energy stocks year. He also recently sold semicon tor stocks—Intel, GCA and Adva Micro Devices—because of shrinkin der backlogs. Alger admits to at leas current loser: General Dynamics, cause its Trident submarine pro hurt the company's stock price than he had expected.

Still, the Alger firm has been full vested in stocks since 1974, and pla remain fully invested for a long t "We are trying to stay at the cutting of the market," says Fred Alger.

It's anyone's guess how long Si investing concepts will continue make sense in the Eighties—but as as they're in style, Alger will be arou implement them. ■

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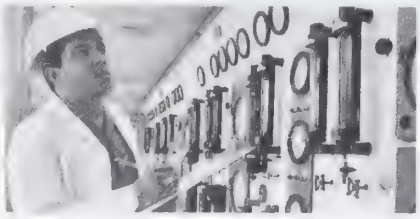

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Production Worker	
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ANNUAL INCOME TAX CALCULATION BY PERIOD*

Years	**1-5**	**6-10**	**11-15**	**16-20**
% Tax Exempt	**90%**	**75%**	**65%**	**55%**
% Taxable Income	10%	25%	35%	45%
Taxable Income	$47,500	118,750	166,250	213,750
Calculated Tax	$12,475	36,438	56,075	76,163
Effective Tax Rate	**2.50%**	**7.29%**	**11.22%**	**15.23%**

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SKF, the ball-bearing king, has found a way to survive and prosper again despite Sweden's high wages and sagging productivity.

"Paint the devil"

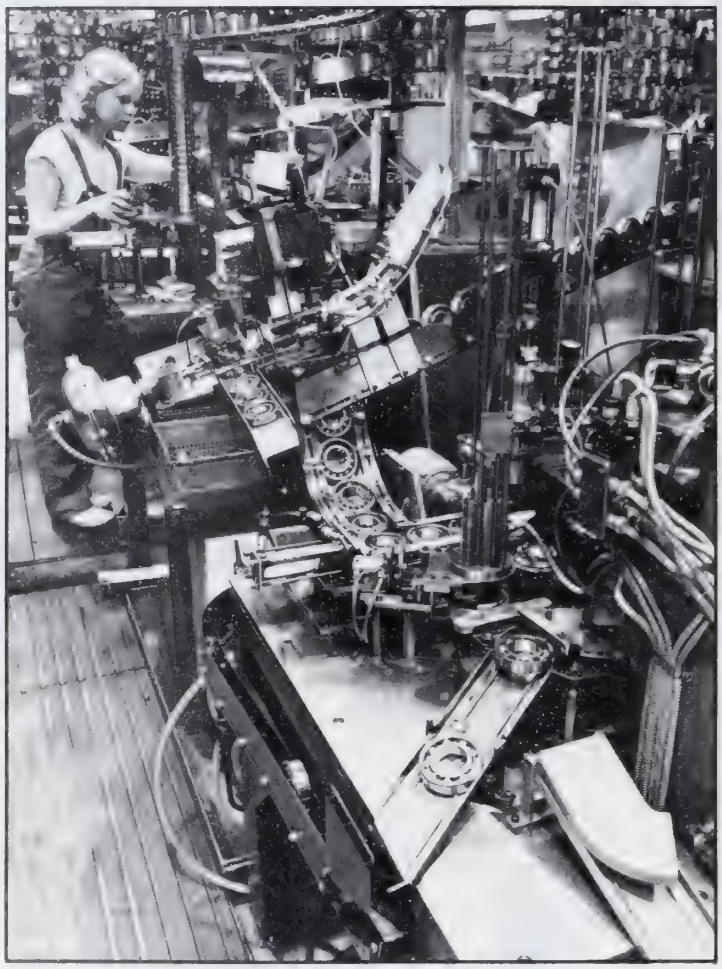
By Jerry Flint

ASK AN EXECUTIVE IN Sweden "How's business?" these days and you will usually get a tale of woe—of fuel bills soaring in a nation that imports almost all its oil, of wages that are among the highest in the world, of productivity gains that are hard to come by as Swedish workers march toward a four-day week by staying home and collecting sick pay.

But ask the question at SKF, the ball-bearing king headquartered in Gothenburg, Sweden's Detroit, and you hear a different story. Last year SKF's profits doubled, for the second year in a row, to $207 million on a sales increase of only 13%, to $2.7 billion. SKF makes specialty steels, high-speed drills and other cutting tools as well as bearings. It also has sizable sidelines in textile machinery and auto parts. But none of these now match its margins in the ball-bearing business. Last year bearing margins hit 9.1%, compared with 3.9% in 1979. With ball bearings accounting for two-thirds of total sales, that improvement was the reason that SKF, unlike many other Swedish enterprises, reported improved total returns on sales last year—7.6% compared with 4.3% in 1979. This in a company that only a few years ago, its executives concede, was in serious trouble.

SKF's turnaround, moreover, came in the face of all the ordinary problems as well as growing competition in world markets from the Japanese.

The success, says the chief executive, Group Executive Lennart Johansson, 51, a tall, husky engineer, came from what he calls "rationalization." In effect, SKF, which is really a worldwide operation, realigned its major European factories so that each now makes a particular type of bearing, then ships across national borders. This resulted in an enormous increase in productivity. SKF's work force, Johansson says, has been cut by 20,000 since 1972, more than a third, while sales doubled. In the past this type of "rationalization" wasn't successfu SKF's American plants; U.S. governm antitrust lawyers didn't care for it. new agreement has been worked with the Justice Department that al the company to adapt this specializa in the U.S.



Producing bearings at SKF in Gothenburg
Next, a shift without workers.

Johansson will get a little testy i say that he has beaten the Japa "Beat? No! I don't say beat. It's ar going war," he says. "For a whi looked hopeless. Now it's competi though very, very tough competi But if you believe in the free ma system, you shouldn't complain a the competition. Either you are up or not. Our rationalization in Eu gives us the ability to stand up to it.

To stay ahead of the competition hansson figures you've got to use capital fully. So, he has a new pet pro His idea: Run his pl around the clock. W more, save labor costs avoid various regulat that make third-shift troublesome by running shift without workers.

"We've been designing own equipment for it. can design equipment maintains itself," he when FORBES spoke him at the company h quarters last month. No that maintenance-free lubricating bearings are c mon in autos today, he sp of plans for a third shift would run six hours ins of eight—some mainten is always needed—with sibly a handful of supervi but for practical purpos shift that would be fully a mated. How soon? wouldn't say, but he's ser about the idea.

SKF isn't the typical Sw ish manufacturer, of cou three-fourths of its 53 employees are outside S den. The profits squeez harder on domestic manu turers than on the worldw operators, says Lars Nabs president of the Federatio Swedish Industries. "Don't forget, have a number of very good, very cient Swedish companies all around world. For me it's not a problem of having good companies; it's a problem getting them to produce in Sweden."

Lennart Johansson acknowledges cost problem at home but says: "Proc tivity at SKF in Sweden will soon ec the rest of Europe. The union here understood the problem."

Swedish industrial workers earn ab $8 an hour and the new national la agreement will increase pay about 9

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the first year and maybe 7.5% next year. In Sweden, as in the U.S., that's considered modest. "If not a strong step in the right direction, at least it's a step," says Johansson. Absenteeism has been the curse of Swedish industry over the past few years. But the SKF executive says that the major manufacturers in Gothenburg are now running at 17% absenteeism, against 23% two years ago. "It's on the high side still, but it shows a changing attitude."

Johansson refuses to be pessimistic on the future of Swedish industry. "Sweden was a poor country but we learned to work with the natural resources—the water power, the iron, the forests. We learned to use them and became industrialists. Now, like the Japanese, we must work with our heads and our hands."

He also says Sweden's famed "codetermination"—the structured consultations with union leaders from the boardroom to the shop floor—hasn't impaired his ability to run the company. "We at SKF say, 'Don't be dictatorial, use common sense.' Yes, there are many rules and regulations to follow. But a manager must have the will to manage. V them, 'If you want to abdicate from agement, tell us quietly. We will nice corner for you.' "

Johansson's got a story for his Swedes who worry too much, w about the Japanese or codetermin "My father told me when I was you you're nervous for the future, pai devil on the wall. Take a look. scares you, run away. If he doesn't you, go on and do what you have Too many of those scared people s paint the devil." ■

Lanier may have set the pace in recent years in dictating systems and word processors, but it will be much tougher from here out.

"Hot as a six-shooter!"

By Jeff Blyskal

GENE MILNER, CHAIRMAN of Atlanta's $300 million (sales) Lanier Business Products, holds up a dictating machine about the size of two credit cards and smiles into the camera for a FORBES photographer: "Hot as a six-shooter. We set the pace for this industry. Our competitors had been sound asleep for 20 years. We were one of the first to come out with a portable cassette machine and make something out of it."

Milner is doing what he does best: selling. "We found out what the devil the customer wanted and gave it to him," he says, explaining how Lanier stole the market lead from Dictaphone in 1975 and ultimately snared a 35% share.

When Milner put Lanier into the fledgling word processing business in 1976, the company took off like a racehorse. Revenues bolted forward at an average 37% annual clip. Earnings followed fast apace at 30%, topping $17 million in the fiscal year that ended May 1980. Lanier's top product was the stand-alone No Problem word processor, a combination of electronic typewriter and video display screen that permits a typist to compose and correct a letter on the screen, then instruct the typewriter to produce as many perfect copies as an operator wishes. Lanier

Lanier's Milner (right) *and Cantrell*

quickly established a 17% market share in this booming business.

Accordingly, the stock climbed steeply to an alltime high of 45 and a price/earnings multiple of 14 this year. In March, however, when Lanier announced that third-quarter revenues would probably be up only 10%, *vs.* a 57% rise the year before, jittery investors panicked, dropping the stock 6 points in two days.

What happened? Last July Lanier's core business, the stand-alone No Problem word processor that accounts for almost 39% of total sales, came under heavy attack from IBM, which launched its Displaywriter at $7,900. In December Wang Laboratories Inc. followed suit with the Wangwriter, priced at $7,500. That spells heavy competition for the No Problem, which sells for $11,000.

Milner and Lanier President Wesley Cantrell scoff at the competition's systems," citing, for example, Wangwriter's slow impact printer know the Wangwriter's going to viable competitor," allows Cantrell not today."

To be sure, IBM and Wang may help Lanier's sales initially by vali and broadening the word proc market. "If we can get 15% of a times bigger, $7 billion market, I'd soon have it," says Milner. And La strong reputation for service may p more difficult obstacle than its new petitors realize.

But Lanier has some important vantages as well. To begin with company doesn't make its own chines. It buys them from AES D Canadian company of which I owns 36% and the government-spa Canada Development Corp. the Milner says he's counting on AES man, $14 million research commit as well as Lanier's own $5 million budget to fight IBM and Wang with products. But he concedes that happen overnight. "The technolo available to make complete machin the $6,000-to-$7,000 range, but it's to take a year or a year and a half them on the market."

With competition heating up i stand-alone word processing busi where will Lanier's new growth from? Milner has his prospects, but all face stiff competition.

In 1979 Lanier moved into a complex form of word processin brought out a system that allowe many as 16 people to draw upon a s data base. Unfortunately the soft had so many bugs that sales stalled. Milner's son, a sales manager in York, told dad he couldn't move thing out the door.

"The shared system is a sad, h breaking story," admits Milner. Bu adds, after spending $1 million o "We think that thing is absolutely rect now." Even though shared logic tems are expected to be the fastest-g ing segment of the word processor ket, the competition from Wang, al established with a 65% share, and

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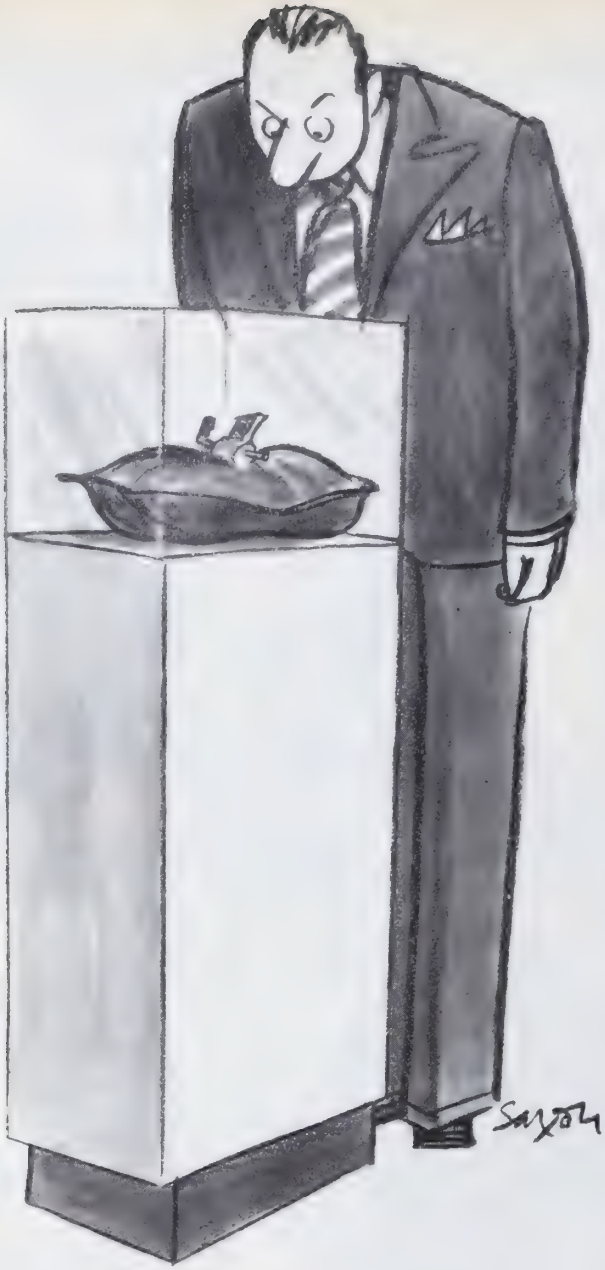

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big firms is intense. "Wang *start* shared systems business," says Ca

Another difficult prospect for La computers. Although Milner wor cuss what Lanier is working on i field, Shearson Loeb Rhoades' a John McManus expects the comp introduce a small business comput tem this fall. The new compute sion's R&D staff has already be panded to 55 people from 11 last y

However, the division's first p flopped. After three years' worl company last year launched its so Alert Shop Floor Control System, enables supervisors to keep tabs factory's work flow. "A terrible b Milner concedes. "We thought we sell it to every company in the U.S every company wanted individua ware written, an impossible task fulfilling its lone contract for Aler Intel, Lanier expects the system to even and then die a quiet death.

Where does all this leave Lanier in a great position, but not in the one either. The dictating business of sales) is holding its own, nicely ported by Lanier's numerous produ troductions. Lanier also does a good ness (14% of sales) distributing 3M ucts. And there are $33 millio

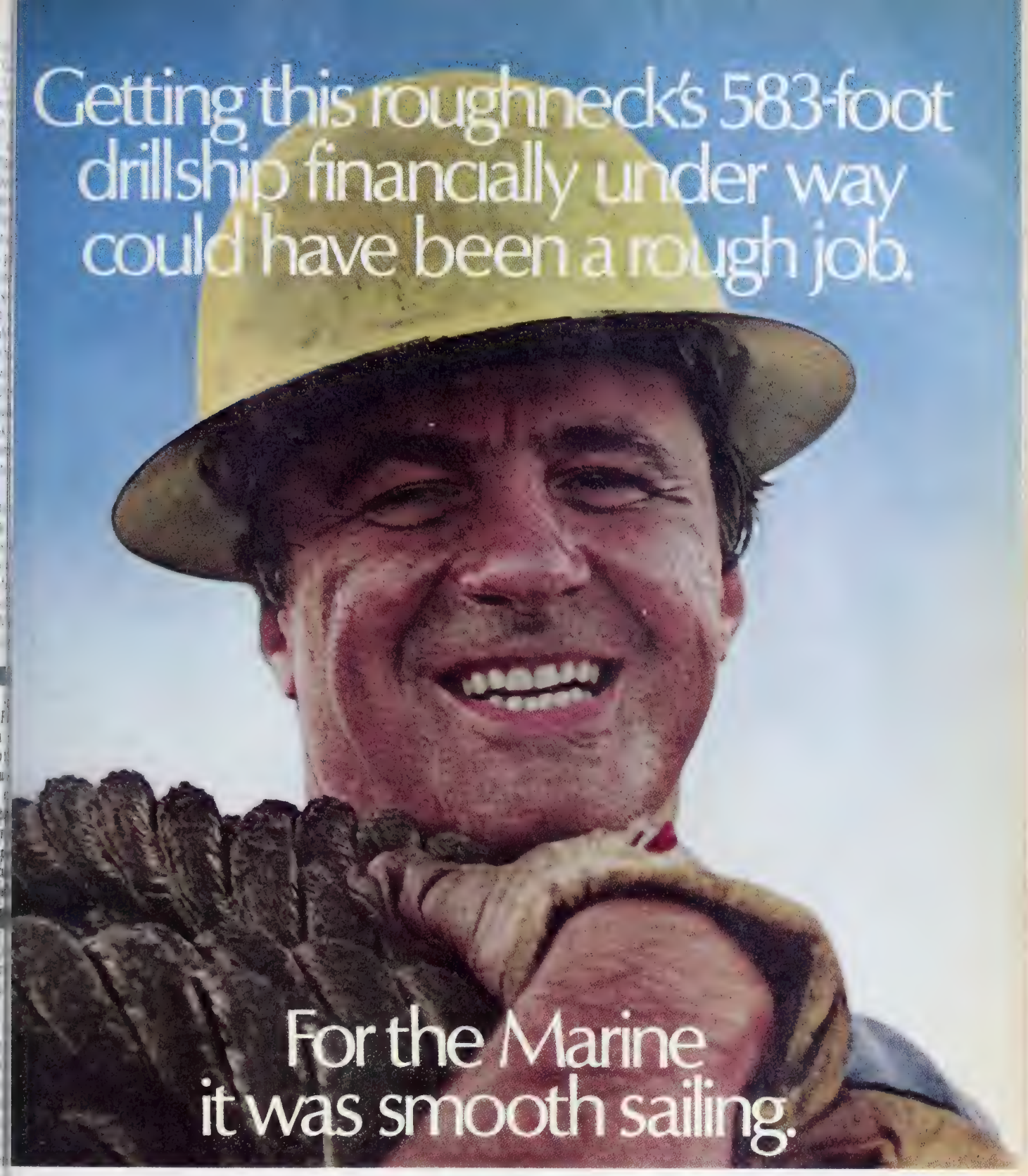
The company last launched its Alert Shop F Control System, which ables supervisors to keep on a factory's work flow terrible bomb," Milner cedes. "We thought we co sell it to every company in U.S." But every comp wanted individual softu written, an impossible tas

revenues (13% of sales) from La servicing of those tens of thousan word processors and dictating mac in the field.

Lanier's balance sheet is also in e lent health with $36 million in against $64 million of stockholder ty. With a cash flow of $22 millior ample working capital of $65 mil Lanier can move swiftly into new a

Milner claims that very little changed at Lanier. "At one poin controlled 60% to 70% of the dict systems business," he says. "Our petitors copied us and did a pretty job and we were down to 40%. The came out with this model, the S Vision III central dictation system moved right back up to 60% again."

That kind of counterattack wil harder to mount against the incre competition, but such is the price of cess in the swirling world of informa processing. ■



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Sam Stayman plays the market as shrewdly as he plays bridge—and runs investment classes for his family. His latest bid: new issues.

Lessons from a master

Grand Master Samuel Stayman
Nothing is good forever.

Profiles

By Steven Flax

SOME MEN GIVE their kids an allov to take out the garbage. Not Sam man. He pays for them to sit and to his stock market advice. Twice y he runs an informal investment ser for his family.

You may remember Stayman. H legendary bridge player and membe fabled team that won the world c pionship Bermuda Bowl three tim the Fifties—a then-unpreced streak. Anyone who has played se bridge in the last quarter-century k the bidding convention that bears man's name.

But investing is as much a passi the 71-year-old Stayman as bridge- over the years he has scooped u share of tricks on Wall Street. No wants to be sure his descendants be from that experience. His message nutshell: Be sensitive to current m conditions and flexible enough to your strategy to them. As a cardpl Stayman knows the importance of chology. "You are involved in prob ities based on your hand, the action partner takes and the actions your nents take," he explains. "Then have the clues from bidding. But th no sure thing." Similarly for inves "Both markets and investors are in fect. You try to imagine what other folio managers will be thinking a something that you have selected. I study in mass psychology."

With that in mind, Stayman do rely solely on Graham and Dodd, o other single investment strategy. stead, he puts his money wher "feels" the action will be. In the Fo he won big with rail reorganiz bonds. In the Fifties, before he sold S ina Mills, the textile company he ov for about 25 years, his portfolio was idly blue chip.

Now, Stayman takes a different "There's nothing that's good forever, says. "People who stayed with the growth stocks, which were very suc ful in the Sixties, have done extra narily poorly since then. The stocks up a head of steam that was not sus able. Today, I would rather not in than have to buy Smokestack Ameri

Instead, Stayman sees greater opp nities in new issues. He did particu well with a word processing com called NBI that went from 20 a little o year ago to about 67 before a recent s Other favorites include: Dysan Cor very small firm that makes thin film competes in computer drive mechanis IPL Systems, a computer manufact and Matrix Science, which designs makes electrical connectors and

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JOHN DEERE ON THE MOVE

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quadrupled since Stayman bought in.

Now, as the new-issue market heats up, Stayman worries about a deterioration in quality. He's bullish, but a bit more selective. "There are still tremendous opportunities," he says. "When a company has come into the market, to have a successful offering they really want the people that buy it originally to make a profit. They like to leave 20% of its value on the table. If you can select the wheat from the chaff, there are some excellent values."

Dividing his time between luxurious homes in New York City and Palm Beach, Stayman, who grew up in Worcester, Mass., the son of a Russian immigrant, now manages a personal holding company and his own investment portfolio. A Grand Master, he has played bridge from China to Naples. Still, you're as likely to find him checking his NASDAQ quote machine or lunching with such mavens as Sandy Abraham or Robert Brimberg (Scarsdale Fats of *The Money Game* fame) as reading the *New York Times* bridge column.

From 1965 to 1974 Stayman ran Strand & Co., a hedge fund that had a compound annual growth rate of 28%. When Stayman decided to cash out, Strand's assets amounted to $50 million, and his investors begged him to stay. But Stayman wanted to concentrate on his own portfolio. Over the past nine months Stayman's common stocks have appreciated nearly 200%. With these, and other investments in oil and gas, tax-free municipal bonds and gold (as a disaster hedge), Stayman has amassed a net worth that has been conservatively estimated to exceed $40 million.

"Sam realizes that there's more to the market than fundamentals," says William Cauldwell, a senior investment adviser at the Bank of New York who works with Stayman. "He uses the analytical powers that he employs at the bridge table. Years ago he told me, 'Don't tell me who the prettiest girl at the beauty contest is. Tell me the girl everybody else is going to pick.' "

Stayman, for example, subscribes to Joseph Granville's market letter, but not because he puts much stock in Granville's predictions. "We pay him a fee because he has such a large following. We even pay for the telegrams. I don't follow his advice. But I want to know the major influences on the market."

With his current emphasis on new issues, Stayman also watches who takes a company public. He looks for lead underwriters with good new-issue track records, well-regarded research departments and strong sales forces—companies that can sponsor stocks and get wide distribution. "Muscle in getting to instit particularly, is very important," h "A bargain that is never found w main a bargain forever."

Not that any of this has proved i ble for Stayman. Last year he t considerable loss with Cetus Corp netic engineering company. hadn't made any money when they to market," he explains. "It was the come but it was being distribu First Boston and Morgan Stanley market was a bit weak when it w sued, so they dropped the price fr to 23. We thought we should take could get." Cetus recently traded a Stayman sold most of it at 20 or ov

In view of the Cetus experience, are the danger signals that Sta watches for? "No road record, s company. Also, if they are selling stantial interest on behalf of stockholders, that doesn't sound go

Another of Stayman's precep Don't invest south of the Rio G "We don't mean avoid Mexico," he "We mean that when you invest from the U.S., you have addition tors, such as political happenings changes or markets that are differe require different skills. We like to these additional risks."

Not that Stayman wants to avoi entirely, he just wants to be well p it. "At the height of the disfavor of

World leader in loss prevention engineering for commercial and industrial properties, and mem

an in his New York office

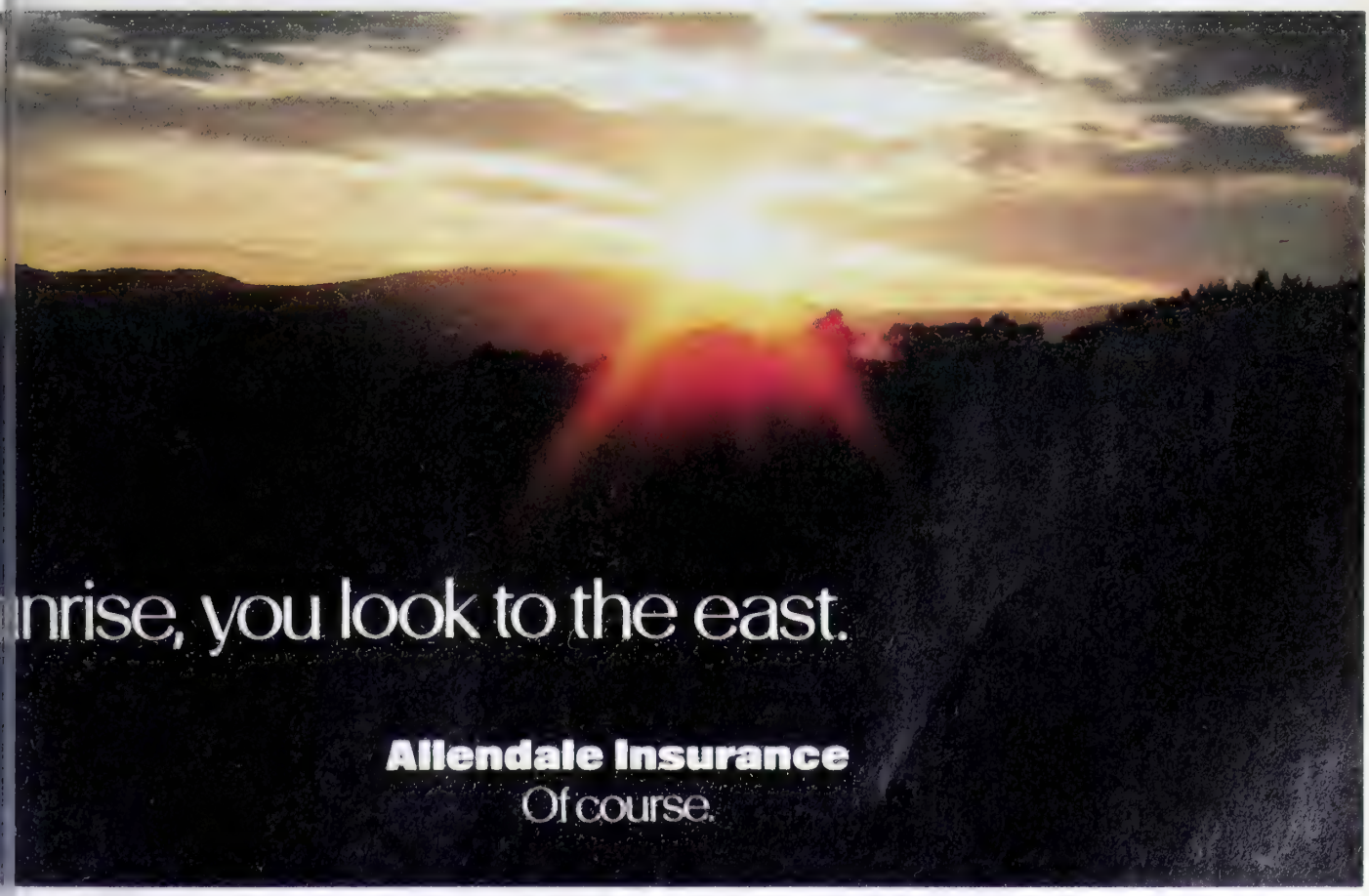
argain that's never found will remain a bargain forever."

ca," he explains, "we did buy De s. It was a tremendous, very secure ness with a yield of 18% that owned of Barclays Bank. Yet you could get it ½ times earnings. We believed that represented a value that overcame e other negatives. We were able to quadruple before we sold it." An- r foreign company that Stayman for is Denmark's Novo Corp., the d's largest manufacturer of enzymes igh fructose corn syrup and gasohol. His investment has more than doubled within the last year.

Another Stayman specialty is risk arbitrage, buying into companies that are in reorganization. "We particularly like real disasters," he says, "companies that have gone into bankruptcy." Knowing, for example, that the Toys R Us division of troubled Interstate Stores was doing very well and had a marketing genius named Charles Lazarus at the helm, Stayman bought in and waited for the reorganization. He bought Interstate shares at 4 or so, later received two-thirds of a Toys R Us share for each one, and now they're selling at 34⅛.

Following precepts like these, Stayman now has 40% of his capital in equities, with a lesser amount in tax-free municipal bonds. Among the 25 to 30 equities he has, only 15 are "important situations." Stayman doesn't believe in putting his money into a huge list of stocks. "I always tell my kids not to put more than 7% of your capital in any one company. Actually, 12 would be about the perfect number," he says. Although Stayman expects a mild sell-off, some of his recent acquisitions include Whitehall Corp., which makes seismic equipment and antisubmarine-detection devices; Trimac, a Canadian company that transports fuel and oil rigs; and Shop-Smith, a maker of tools for home workshops.

Is there any final point, some grand slam of stock market wisdom that Stayman offers his children? He tells them not to try picking hot stocks, but instead to find the best possible financial advisers. A shrewd pro at both bridge and the market, Stayman knows that investing is not a game for amateurs. "I tell them not to expect to do it all," says Stayman. "I don't care how much business experience a man has, investing is a professional's job. Your challenge, I tell them, is to find someone to help you do it." ■



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hough The Great Submarine Flap has cast a adow over General Dynamics, the defense siness has never been so good.

"We've got a lot of depth"

By Subrata N. Chakravarty

FTER THESE LAST WEEKS, I'm more eager to retire than before," sighs General Dynamics' 63-year-old rman, David S. Lewis, with a rueful h. "I've really been through a very matic experience with those people e Navy."

hat he has. First, General Dynamics publicly raked over the coals e Navy for the performance s Electric Boat division, the on's premier builder of nu- r submarines. Within a k, John Lehman, the new etary of the Navy, suspend- ompetitive bidding for three Angeles-class attack subma- s and awarded them to New- News Shipbuilding & Dry k Co., a unit of Tenneco. In g so, he released another t at GD to the press. And two ks after that, the Navy ped its option to buy a ninth ent ballistic missile subma- the behemoth class of sub- ines that will carry the huge Trident II missile. In less a month General Dynam- ost $1.4 billion in submarine business suffered a very public black eye.

ot that Dave Lewis is exactly a strang- such problems. For a decade, he has trying to get all of the scattered parts s company pulling in the same direc- . He has managed it only once—in). For most of that time one or an- r of GD's major businesses has been lved in controversy, even though may not have lost money. First there the much-criticized F-111 fighter ber, built by the Ft. Worth division. n there was the Quincy Shipyards, its recalcitrant labor and spiraling s. In 1978 there was the staggering million reserve that Electric Boat set gainst past and future losses, owing to overruns on the Los Angeles-class submarine program. And now, The Great Submarine Flap. This one, Lewis feels, he didn't deserve.

In an unusually ill-tempered presentation in March before the House Armed Services subcommittee on Seapower, Vice Admiral Earl B. Fowler Jr., commander of the Naval Sea Systems Command, accused Electric Boat of a multitude of sins, including defective welding, poor quality control and schedule slippage on both the Los Angeles and Trident programs. P. Takis Veliotis, GD's executive vice president for marine operations, acknowledged that there had been problems, but asserted that they had been solved long before. In a remarkably combative statement, Veliotis refuted or minimized all Fowler's criticisms and several times all but explicitly accused the admiral of lying.

General Dynamics Corp. Chairman David S. Lewis
"The Navy was biased and completely one-sided."

Lewis is still fuming over Fowler's testimony. He has no apologies for GD's sharp response. "We respond when the bell rings," he says. "Maybe a little too much, but I don't really think so. They only told part of the story in a biased and completely one-sided manner. We would never have answered that. But then they took the action of taking away jobs and criticizing the company as the reason for doing it. So we felt we had to put the record straight."

Lewis is particularly bitter about Secretary Lehman's action in suspending the attack-submarine competition because it will cause massive layoffs of skilled personnel at Electric Boat. Worse, the action was taken before anyone at General Dynamics had an opportunity to give GD's side of the story to Lehman. "When we had our very first meeting he handed me the letter saying he was going to award the contract to Newport News," says Lewis with a frosty smile. "We talked for quite a while and I told him in words of one syllable that he didn't know what he was doing. I've been in this damn business an awful long time and I've never known anyone to take such drastic action without making any effort to find out the whole story."

What puzzled Lewis about Lehman's action in dropping the Trident option was that there is no other shipyard outside the U.S.S.R. capable of building it. "If we hadn't spent $280 million of our own money at the front end, there would be *no* place in the world where we could build the Trident," he snaps. In a petulant statement to the press, Lehman, 38, threatened to cut short the Trident program and build far smaller and less capable submarines instead. However, the Navy needs the Trident submarines. They are the only ships capable of carrying the bigger and longer-range Trident II missiles. So by canceling the option, all Lehman did was to ensure a price increase of several millions of dollars because of lapsed supplier contracts.

The reason for this extraordinary, and deliberately public, performance is unclear. Both Admiral Fowler and Lehman declined to speak to FORBES. But some experienced political observers speculate that the explanation may lie in the Reagan Administration's need to show that it can be as tough in scrutinizing defense programs as it has been with social welfare programs. Picking on two programs that are too critical to be canceled would, of course, be both safe and easy. A more vulnerable program might actually be scrapped by Congress.

The public criticism, loss of lucrative contracts and the imminent layoffs at Electric Boat have cast a shadow over what is actually a very successful defense contracting business. Electric Boat still has 20 submarines under construction. While 10 of the 12 Los Angeles-class submarines remaining will be delivered at a loss, the loss was provided for in 1978 and the two later ships in the series

Trident ballistic missile submarines Florida (background) *and Michigan. The attack submarine, Boston, is in the foreground*

"If we hadn't spent our own money at the front end, there'd be no place in the world we could build the Trident."

will be profitable. The Trident program, although delayed and over the target cost, is contractually on schedule and well within the contracted ceiling cost. It will be very profitable once the ships begin to be delivered later this year.

The Ft. Worth Division makes the F-16 fighter, currently the Air Force's most important program. When conceived in the early Seventies, many charged that a multinational construction program, coordinating hundreds of companies in five nations, was too complex to be managed. Not so. "That program today is successful beyond the wildest expectations of myself or anybody else involved in formulating it," says Frederick S. Wood, the Air Force's former international administrator of the F-16 program and now GD's vice president for contracts. "It is on cost and on schedule." With only 314 planes delivered through 1980, and a likely production run of 2,000 or more, the program will continue well into this decade. Meanwhile, GD is developing both a less versatile version for export and a more advanced version that would double the F-16's range and payload, either of which could extend the program further. As an added bonus, there is the chance that Congress may opt for a modified F-111 instead of a more expensive new version of Rockwell's B-1 as the Strategic Air Command's bomber of the Eighties and early Nineties.

Even greater hope for immediate profit lies in GD's missile and gun business. The Convair Division makes the old but continuing Atlas/Centaur rocket and is about to begin production of the Tomahawk sea-launched cruise missile. It is testing a ground-launched cruise missile and, although it lost an air-launched missile to Boeing, it is now developing a medium-range missile.

The Pomona Division makes the Standard ship-defense missile and is beginning production of the Phalanx shipboard gun system. It also makes the highly successful Sparrow air-to-air missile for the Air Force and Navy and has developed antiaircraft and antiarmor missiles for the Army. The winner of the competition for a tank-mounted gun system is to be decided shortly. All in all, the missile and gun programs could double, to $1 billion in annual revenues, in the next two to three years.

With 75% of revenues and more of operating earnings coming from defense-related business, one might expect David Lewis to be concerned about General Dynamics' dependence upon a single customer. Not Lewis. "If all we had was the Trident and the F-16 we would have far greater concern than we have with a multiplicity of programs," he says. "There's a great diversity of government business in this company and we have them all down the line, from the mature old Standard to things that are very advanced." And with defense spending rising, GD can probably look forward to years of major programs.

What Dave Lewis is thinking about now is the need for growing and profitable civilian businesses to take up the slack when the inevitable downturn comes in defense. He has his work cut out for him. The three companies acquired from Henry Crown in 1959—Material Service, Marblehead Lime and Freeman United Coal Mining—did well last year. But the others ran into trouble. Now Freeman United, with 1.2 billion tons in coal reserves, is on strike and the other two are vulnerable to recession.

Quincy Shipyards, which Lewis stubbornly refused to shut down in the mid-Seventies, finally paid off handsomely in 1978 and 1979 as production peaked on the construction of ten liquefied natural gas tankers. In 1980, however, ope profits fell 99% as the last two ta were delivered. Quincy has provis contracts for nine more LNG tar but they are conditional on the con tion of a terminal in California tl under environmental challenge. I meantime, Quincy is scrambling to in enough business to stay alive. have a first-class shipyard now whe had a third-class one before," says L "If we can keep it going for the nex or three years and maybe make a money, that's about as much as w hope for. But we still think the bor is there. Quincy is going to boom. might have a point. So far this Quincy has managed to build its ba from $70 million to $200 million a may get some business from the bi val buildup that has been promised.

Then there is telecommunicat Although DatagraphiX' $140 lion computer-output micr business is growing and doing well $262 million telecommunications sion has had operating profits only year in the past five, owing mainly t high investment and low retur Stromberg-Carlson's telephone sw ing systems. Lewis plans to spend money here to broaden the product perhaps by acquisition.

The lack of successful civilian busi is Dave Lewis' major failure. For al recent acrimony, General Dynamic mains overwhelmingly a military tractor. And when Dave Lewis retir a couple of years, that is the kin company he will turn over. That, a company with tight managerial con and a quality of management a which he professes no concerns. "W got a lot of depth now," he says.

Now, if he can just get along those admirals. . . . ■

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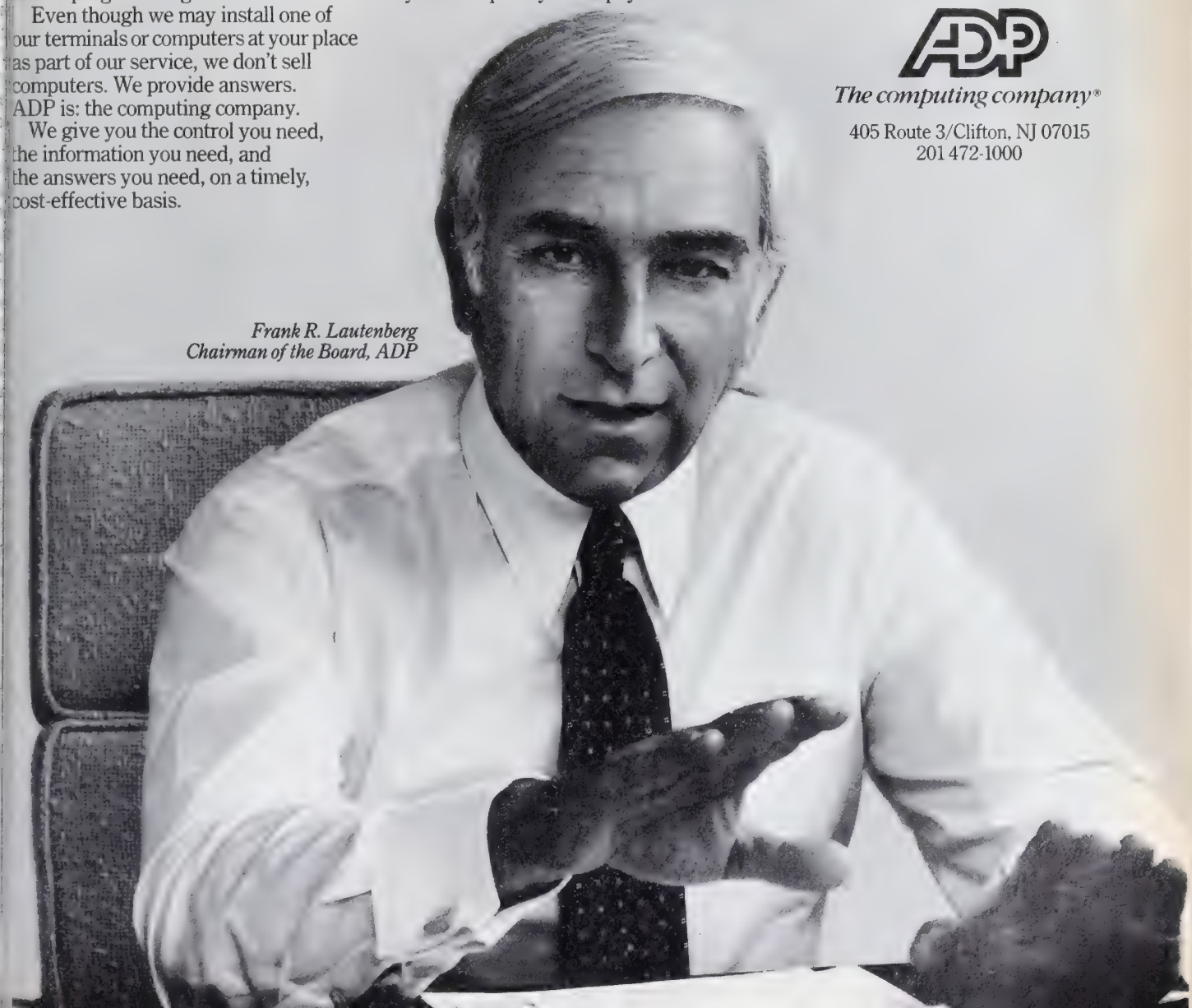

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Group Vice President,
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Will Ma Bell allow the new two-way cable-systems to turn the telephone into the telegra of the Nineties? Not very likely.

AT&T versus cable: war of the wires

By Allan Sloan
with Thomas Baker

A CENTURY AGO, THE MIGHTY Western Union Corp.'s network of telegraph wires was the dominant force in the U.S. communications business. When a handful of struggling businessmen began stringing wires over rickety poles to carry voice communications, Western Union snickered. Voice was a passing fad.

The rest is history. By the time Western Union realized that telephony was a threat, the tacky little phone entrepreneurs had become AT&T, and had enough muscle to fend off the giant. We all know what happened to the telegram business as a result.

But history has a way of repeating. When the first, primitive cable television systems were being built 35 years ago, Ma Bell, whose phone wires dominated the country, figured that sending TV pictures by wire was a passing fad. Instead of getting into the cable-TV business, Bell stuck to phones, figuring that cable would fade when the country became saturated with TV stations and everyone could get pictures over the air. When it realized cable wasn't fading, Bell tried to give itself power over its content by building systems and leasing them to cable operators. But by then, the cable industry had enough clout, and had the FCC assert itself in a way that moved Bell out of the business beginning in 1967.

If these historical parallels aren't disturbing enough to Bell, consider this. Cable TV has developed two-way systems that not only can send information (TV pictures, for example) into a customer's house, but can also carry information back out. That's the kind of thing the telephone does. The best-known two-way cable system is Warner Amex Cable's Qube in Columbus, Ohio. At the moment, Qube isn't good for much more than parlor tricks—such as asking viewers to vote yes or no on a series of questions—but it has potential to d more. It holds peril for Bell.

Spurred by visions of Qubesque tems, cable-TV companies are franti bidding for the right to wire Ame big cities. To you, that may me chance to watch dirty movies or c To Bell, it means a second wire— than the telephone wire—in the ho

Cable TV can also be used to cir vent the phone company compl Witness New York's Citibank, w uses Time Inc.'s cable-TV syste move information around Manha Citibank can also shoot the inform to San Francisco via satellite, and it around San Francisco through Vi International's cable system there.

At this point, only 19 million of t million American homes with t sions are cabled, compared with virt 100%—80% of that by AT&T—ho up to the telephone network. But ca catching up fast. By the mid-Nin it's reasonable to expect that 80% of the nation's homes will have acce a cable-TV wire. Many big cities are being wired with two-way systems competition for franchises is under everywhere else.

Will cable TV turn AT&T into Western Union of the Nineties? N Bell can help it.

Bell is involved in a massive effo provide electronic information to tomers through phone lines befor cable-TV people sign everyone up mors of what Bell is up to are curr shaking the cable-TV industry. Bel mits that it has projects under way huge Indianapolis Western Electric f ty, but won't discuss anything a them. "We don't want to be accus trying to overhang the market spokesman says.

AT&T has a history of trying to cable. First it tried to keep cable wir phone poles. Then it offered com cable systems at cut-rate leases, pro Bell had veto power over content. S

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AT&T's new-products head, Dennis Sullivan
"We won't be sitting there with just a telephone."

company is wise to keep a low profile. There are also lingering legal and antitrust problems, as well as problems setting up its unregulated subsidiary, Baby Bell. That, however, will group all the company's nonbasic phone services into a separate, FCC-free enterprise.

Bell is heading for a war of the wires with the cable industry because most of the home information business is wide open. Bell is franchised to provide phone service, and cable companies are franchised to provide TV pictures by wire. Everything else is up for grabs, including part of the newspaper business. Bell's "electronic Yellow Pages" and some of cable's proposed local advertising are almost indistinguishable from classified ads in newspapers. Publishers are simultaneously buying cable companies and lobbying in Congress to keep AT&T out of electronic advertising.

But Bell, whose executives know Western Union's history well, has no intention of going down the path of technological obsolescence. "Western Union made one of the biggest marketing mistakes in history," says Dennis J. Sullivan Jr., the AT&T assistant vice president in charge of developing new consumer products. "Western Union was in the telegraph business, and didn't believe in the telephone. We won't be sitting there with just a telephone."

Sullivan's biggest operation so far is a 230-home test with Knight-Ridder Newspapers in Coral Gables, Fla., where customers get computer terminals wired into TV sets. These customers use the phone wires to do such things as ordering airline tickets or buying from the Sears catalog. Bell is also experimenting with electronic Yellow Pages in Austin, Tex. (FORBES, *Jan. 19*), and has tested a system in Albany, N.Y. that lets customers look up phone numbers with a computer screen instead of a phone book.

Granted, these tests are small potatoes, like Warner Amex' Qube. At this stage no one knows what product—other than entertainment—people are willing to pay big bucks for. Sullivan hopes to be offering some sort of telephone-based information service for the masses in 1984. By 1990, the company feels, as many as 7% of all telephone customers may be using those systems. "We've reached the maturity level in voice telephones," Sullivan says. "We need new territory."

That territory is being claimed by the cable people, many of whom seem to feel they have a divine right to a monopoly on home information service.

Cable TV is riding a speculative bubble, partly because new entrants foresee being able to sell not only TV pictures but services yet unborn. In fact, the giddy prices currently being paid for cable-TV systems—Westinghouse's $850 million for Teleprompter, the New York Times' $100 million for Irving Kahn's systen clearly assume such services will there. Selling basic cable service wi Home Box Office kicker is very, profitable if you build or buy a systen $200 a customer. But if you're buyin building a system for 3 or 4 times much—as newer entrants will—you h to sell something other than entert ment to justify the expense and risk.

In the coming war with Bell, the c industry starts out with one big ad tage: Its wires have far more signal pacity than Bell's. One modern cable wire has 45,000 times the capacity phone wire.

Still, the phone wire may be g enough to carry most of the informa people want. A 100-lane freeway can ry more traffic than a 4-laner, but advantage doesn't matter if the tr doesn't fill more than two.

But cable has its problems too. It be able to handle much more infor tion than the Bell wire can, but it difficulty getting data where it shoul A two-way cable can shuttle informa between you and the cable compa office, but it can't get the informa from your house to anywhere else. T that, you need a switching netw which is what Bell is all about.

"Cable has the wire without switches, and AT&T has the swit without the wires," says Tom Ca

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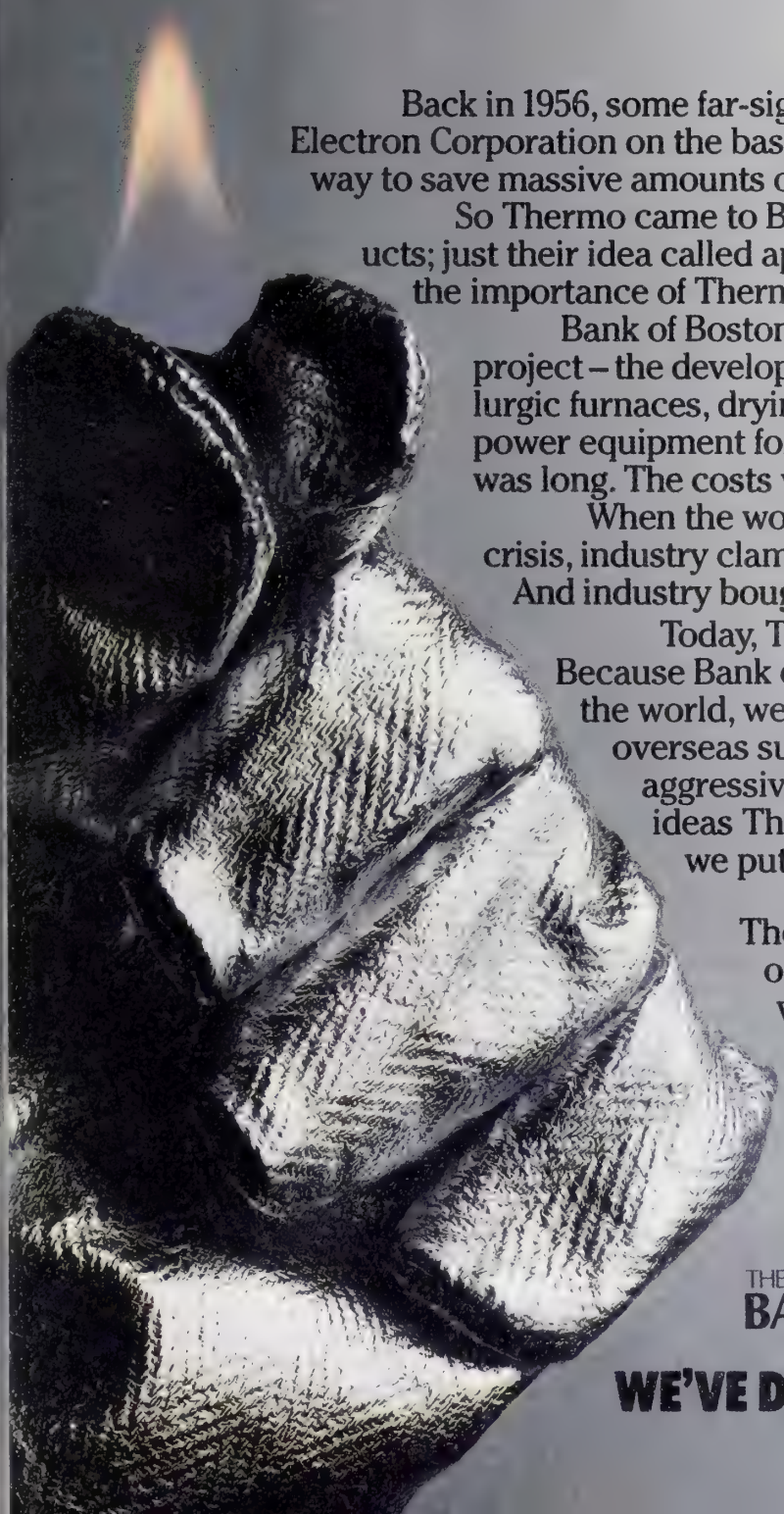

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former deputy chief of the FCC's common carrier bureau and now a Washington attorney. "The fight between the cable industry and the telephone industry is about who is going to transmit information services from the computer to the customer. The fight between the newspapers and the phone company is about what that information is."

Despite the problems with the capacity of its wires—and the fact that if you're using your phone line to talk with the Sears computer, no one can use the line to talk with you—AT&T has several advantages, not the least of which is the changing regulatory and legal climate in Washington.

Almost every home is connected to phone wires, while a typical cable-TV company hooks up only half the homes its wires pass. AT&T doesn't have to fight for franchises the way cable companies do. It has manufacturing capability, computer expertise, Bell Labs and the reputation earned by offering the best telephone service in the world.

What's more, Bell has access to its switching and long-distance networks because it is using telephone lines. For now, only Bell is able to ship information long distances easily. Cable companies will have to rely on locally generated information until they are able to use satellite or MCI-type relays.

Meanwhile, Bell seems about to escape from the limits imposed by its 1956 consent decree with the Justice Department. Its proposed Baby Bell subsidiary will be unregulated, for example. If Bell pursues its current plan to offer information services through Baby Bell, competitors will face an unregulated, heavily capitalized company that can afford to take losses for years to develop markets.

Though no one will discuss it, the Bell strategy seems clear enough: Offer the service in big cities that aren't yet cabled, so that when the cable comes, competitors will have to dislodge an established Bell operation. With a secure base, Bell can then expand into areas that are cabled. With luck, Bell, which overwhelmed its independent telephone rivals in the early 20th century by denying them access to long-distance services, can use its clout to take cable business away.

"They're going to be very big players," says Gerald Levin of Time Inc., the nation's biggest cable-TV player. Time has more cable customers than anyone else, and dominates the pay cable business with Home Box Office.

With money rolling in from Home Box Office and 1.4 million cable customers acquired very cheaply, Time is one of the few companies that can make out very well even if cable never does anything more than sell TV pictures.

Gus Hauser, whose Warner Amex Cable is the second most important behind Time, isn't so sanguine. Warner Amex is betting heavily on two-way cable, a wiring big cities—Dallas, Cincir Pittsburgh, part of Houston—on th sumption that two-way will pay of He fears that if the phone company in the business, it will squash its co tition by running losses to force out of the game.

"Don't ask us to compete with phone company," he says. "That' competition, that's death."

He draws no reassurance from A Chairman Charles Brown's promis to get into what Bell describes as c traditional business—taking TV pic off the air and transmitting ther wire. "That's supposed to make e one comfortable that the monster not bite you," Hauser says. "The they say they're not interested n nothing. We have to nail them with big studs."

But nailing down Ma Bell isn't so Bell has a tendency to slumber, but i

Bell is a good bet to get a h piece of the home informat market. "AT&T is a shark cable is a remora," says a ble spokesman. "We get the tle pieces they miss."

fierce when aroused. In the war cable, Bell has not only the future at s but a substantial part of the present.

The Yellow Pages, for example $2.5 billion of very lucrative Bell enues, which could fall sharply if merchants can advertise on cable TV change their copy daily. After all only service Bell offers is an ad ponderous book that's changed only a year. Then there's the threat t new dial-a-something services Bel developed recently. If a two-way system lets you call up sports scor nothing, who will pay Bell a dime t SportsPhone?

Even if it gets completely free of and congressional entanglements, hard to see Bell taking all of the information market, whatever it out to be. But Bell is a good bet to tremendous piece of it. "AT&T shark and the cable industry is th mora," says Robert Ross, senior president at the National Cable Te sion Association. "We get the pieces they miss, and we stay flexib

No one at Bell wants to be ren bered as the man who allowed telep to become obsolete. It's a lesson w remembering every time some ho communications company buys int ble TV, and predicts it will own world. If Gus Hauser and Gerry Levi worried about the phone company's in cable, then cable investors shou worried as well. ■

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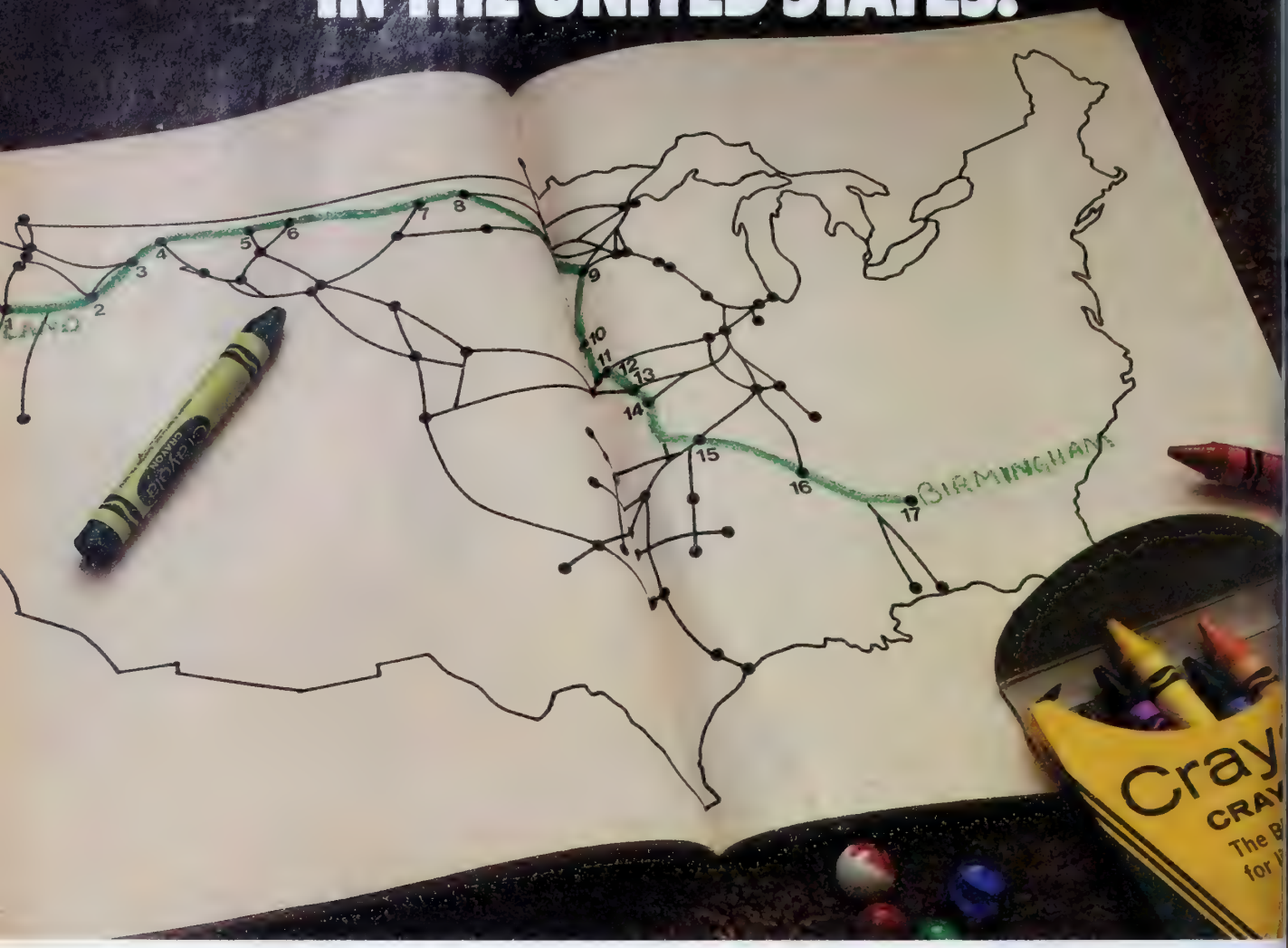

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ıder a new FASB ruling, vacation liabilities ıst be shown on corporate balance sheets. If plied to cities, that could mean disaster.

Off-the-book time bombs

By Alyssa A. Lappen

HE FINANCIAL ACCOUNTING Standards Board has come up with a recent ruling that will force com- es to recognize a new set of liabili- The ruling, number 43, requires all loyers to accrue a liability for future tion benefits and those sick benefits for extra time off. For firms with a number of employees, such liabili- can be substantial, not least because loyees often bank their benefits just additional pay.

hat's curious is that the FASB— g with the rest of the accounting d—has left the problem unresolved nunicipalities. That's where the *real* tion and sick leave liabilities are ked away, since city leaders for years sated employees with leave and vacation benefits in of cash.

e origins of the corporate ruling back to 1973, when the Civil nautics Board ordered domestic air- to accrue vacation benefits as a lity on their balance sheets instead ying them out of expenses as they rred. Eastern Air Lines had prob- with the ruling. It was putting out million a year in vacation pay, yet liability didn't appear anywhere on ooks. The CAB backed down in ern's case and things were rosy until h 1977, when the company regis- a $50 million debt offering with the The SEC blew the whistle: Record liability on your balance sheet, it or forget about your debt issue. rn needed financing, so it was d to comply, plopping a $35 million oss onto its restated 1975 accounts. result was a record $96 million loss at year.

w, with the FASB ruling, *all* compa- have been ordered to record vaca- and some sick leave benefits as a ity on their balance sheets. Al- gh companies need not have complied with the new rule until this year, some have already chosen to. Alcoa, General Tire & Rubber, Geo. A. Hormel, Holly Sugar and Sherwin-Williams have all booked their vacation benefit liabilities on their 1980 annuals.

Of course, the blow to most companies' earnings will not be nearly as great as it was in the case of Eastern, because the FASB allows companies to assume the liability over previous years and re-

state earnings. So although Sherwin-Williams' total liabilities are up $16 million, the company earned only $1.2 million less in 1980, on net income of $25 million, than it would have otherwise.

While that's the kind of liability an investor wants to know about, it's not a matter of life or death, of course, and often is so small it won't even show up as a separate line item. But with cities, these liabilities could be nearly enough to push them over the brink. According to a study of 100 cities published by Ernst & Whinney in 1979, 59% did not provide any information whatsoever on vacation and sick leave liabilities. Often, if they don't disclose the information, they don't have it internally either.

"We're paying vacation benefits with current tax dollars for services that were received in the past when we really didn't recognize their full cost," says Anthony Mottola, head of state and local government services at Coopers & Lybrand. "That means, simply, that governments have mortgaged the future to some extent, and have made a financing decision that they will pay for when they write the checks." That's if there's any money in the bank when they want to write the checks.

Take the case of a Brookline, Mass. assistant superintendent of schools who worked for around 20 years and rarely took a vacation or sick day. A month or so before she retired, the city discovered that she was due nearly $30,000 in accrued benefits. Yet that liability was never on the city's books. The retiring school official settled for somewhat less, and Brookline soon changed its vacation accrual policy. True, cities do not usually pay out 100% of accrued sick benefits when a person retires. Of $100,000 in accrued benefits, a retiring worker might get, say, 40%. Still, multiply that by thousands of workers and you begin to see the problem.

In New York City, vacation and sick leave liabilities were first reported in the annual report in 1978. That year they amounted to $590 million. Last year they hit $670 million, but were still listed as long-term obligations. If they were shown as short-term liabilities, they could conceivably increase New York's $3.2 billion net general fund deficit to nearly $4 billion.

In Dallas, in 1979, the city disclosed vacation liabilities of $8.6 million and a potential $33 million of sick pay liabilities. Contrast that with a mere $3.4 million in the general fund for that year.

Back in 1977, the SEC wouldn't allow Eastern Air Lines to go to the market until it cleaned up its vacation and sick leave liabilities. Why don't Standard & Poor's and Moody's—which have been acting as if they were going to impose good accounting on municipalities—make the same kind of threat? ■

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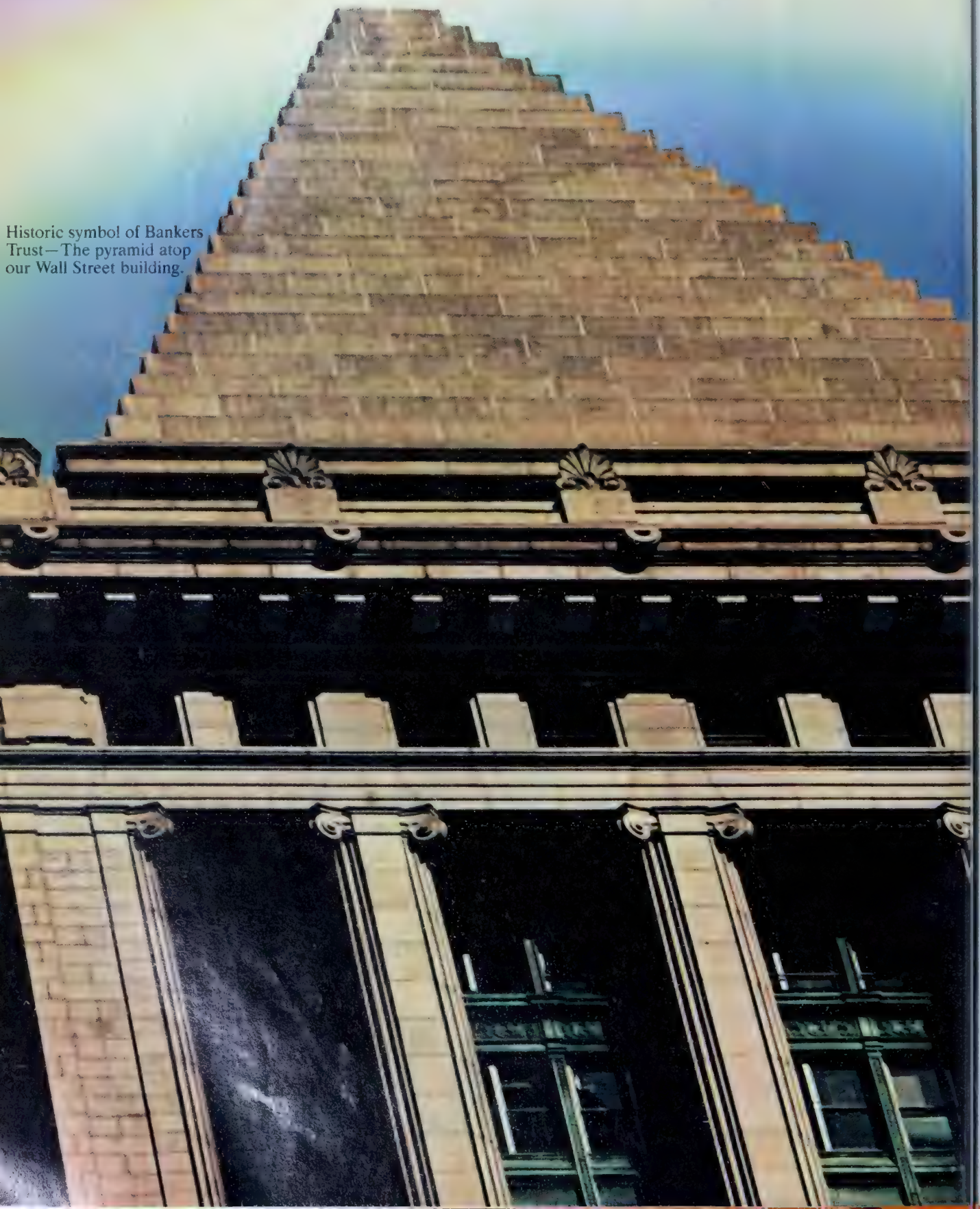

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OR A FAST FIX on what major U.S. companies have been going through lately, consider these numbers tracking the top 500 companies in sales, profits, assets and mar- value in 1980 as compared with 1979:

	1980	1979
Sales	**+15.0%**	**+18.8%**
Profits	**+ 7.7**	**+22.6**
Assets	**+11.6**	**+13.8**
Market Value	**+31.6**	**+15.9**

very way but in stock market action there was consider- cause for anxiety.

sales gain of 15% would normally be nothing to complain ut, but it is scarcely reassuring when the most common sure of inflation, the CPI, was running at 12.4% last year. r as the sales growth was, the growth in profits of the top in that category was even less satisfactory. Indeed, profits a little more than half as much as sales. Compounding was the fact that the profit growth failed to match the wth in assets. Consider the inflation factor infecting all , and the results of 1980 prompt thoughts of treadmills.

respite these concerns, of course, in 1980 the top 500 U.S. companies ranked by their stock market value recorded their largest year-to-year percentage gain since FORBES introduced its "500" rosters in 1969. Not even the inflation factor could dull the luster of that performance. It's true that oil stocks, which were an important part of the market's strength all through last year, have been taking some hard knocks lately. The Standard & Poor's oil composite index, for example, has fallen 18% in just the past three months. But despite that, and despite continuing high interest rates, continuing troubles in the auto business and other known depressants, the stock market has continued to behave as if stress were the law of life in business. Last month the Wilshire 5000 Equity Index, the broadest measure of the stock market, was a bit higher than it was as 1981 began. It's worth noting, too, that the strongest gain made by the Market Value 500 prior to 1980 was in 1975, at the end of a recession, when the group gained 25%.

Stress *is* the law of life for the biggest of U.S. businesses. For confirmation, note the summaries beginning on page 258, in which all of the companies on the FORBES 500 lists—the total is 818—are brought together and their respective rankings noted on all four measures. The size of a company's assets, it is plain, is no guarantee of the size of a company's profits. Indeed, it is no guarantee of any profit at all.—**The Editors of FORBES.**

A $300 billion gain sounds like money, but factor out the effects of inflation and factor in the gains of the energy companies and the banks, and there is much less to it than meets the eye.

NOT IN YEARS HAS THERE BEEN SO little to cheer about in the sales results of the top 500 companies as there was in 1980. As a group the Sales 500 reported revenues of $2.2 trillion, a seemingly impressive enough 15% gain over the $1.9 trillion total for the preceding year. But factor out the effects of inflation (the CPI was up 12.4% last year) and factor in the formidable sales gains of the energy and energy-related companies and the revenue gains of most major banks because of high interest rates, and in real terms the sales gain for the rest of the 500 as a group vanishes.

Rank 1980	Rank 1979	Company	Sales ($000,000)	% change over 1979
1	1	**Exxon**	103,143	30.4
2	4	**Mobil**	59,510	33.1
3	2	**General Motors**	57,729	–13.0
4	6	**Texaco**	51,196	33.5
5	3	**American Tel & Tel**	50,791	11.9

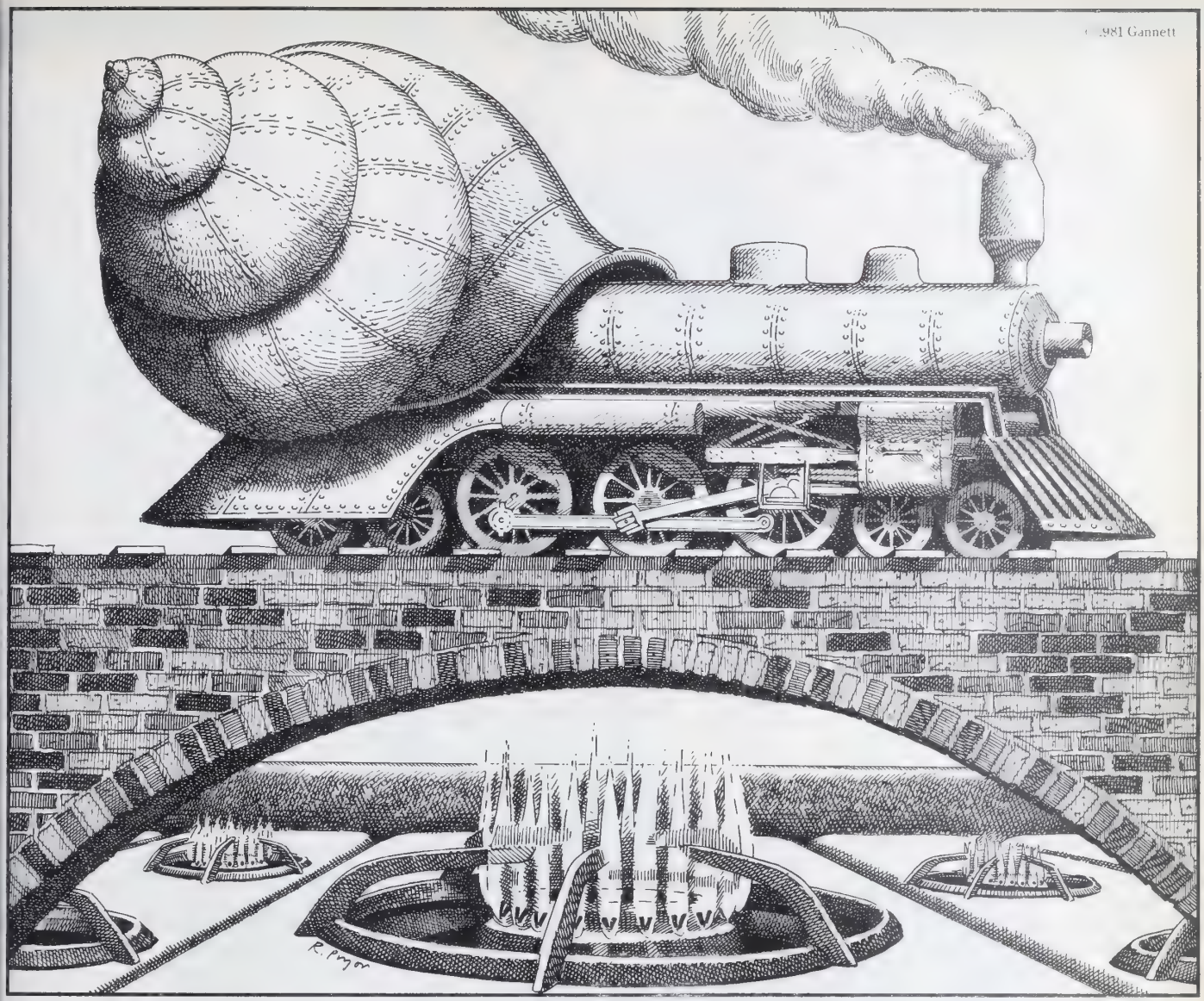
One huge drag on sales results, of course, was the auto industry. Thus, not only were sales of General Motors, Ford, Chrysler and American Motors off, but also those of major parts suppliers like Eaton, Borg-Warner and Dana, of steel companies like U.S. Steel, Bethlehem, National and Inland, and of tire companies like Firestone, Uniroyal and General. All told, 47 of the top 500 companies—nearly 10% of the list—showed declines in revenues last year (*vs.* just 13 in 1979).

Not every decline in sales, it should be noted, is necessarily a portent of worse to come. The largest decline among the 500 was shown by Esmark, which, h shed some energy interests as part major restructuring and having beg get out of the fresh meat busines ported revenues down 57% last yea the news, in mid-1980, that the pany was taking decisive action stock soared and is now tradin around 68 (*vs.* a 1980 low of 24⅞).

The fortunes of the energy companies last year, again, trasted sharply with most others. Against the 15% gain fo Sales 500 as a group, the 7 largest oil companies—w comprise 7 of the 15 largest companies of the Sales ros showed average revenue gains of 33%.

The banks, too, showed extraordinary gains. All told, th largest banks on the Sales list reported gains averaging very nearly matching those of the top oil companies.

There are 33 companies new to the Sales roster. The co nies that fell off the list include such familiars as Kaiser Certain-teed and Genesco. Last year, when the 500th com had sales of $904 million we prophesied that it would tal billion in sales to make the 1980 list. We were wrong: The company this year, Square D, had sales of $999 million.



LIGHTING A FIRE UNDER BUREAUCRACY

SHREVEPORT, La.—For years, residents of Alden Bridge, a small community near here, had been living without heat or paying high prices for butane. For some who existed on Social Security, the choice was heat or food.

Yet, a pipeline carrying cheaper natural gas lay just 2½ miles away.

Most residents of the area could not afford to pay their share of the cost to extend the pipeline. The efforts of officials to join public and private capital to do the job had bogged down in a mire of red tape and legalese at the state government level.

Then in January, 1980, The Shreveport Times ran a series by reporters Bobby Lamb and Alison Watson describing the plight of Alden Bridge. The newspaper began a series of editorials urging state approval of the financing plan. Within 30 days the approval came and the pipeline was completed last summer.

In mid-winter, 1981, The Shreveport Times reported that most of the houses in Alden Bridge were being heated with natural gas from the pipeline, at less than half the cost of the butane they used last year.

This aggressive reporting and the supporting editorials reflect the duty of a responsible press to act as the voice of freedom for the people. In its diversified print and broadcast information services, Gannett encourages local leadership to improve the quality of life in each community served, according to individual needs.

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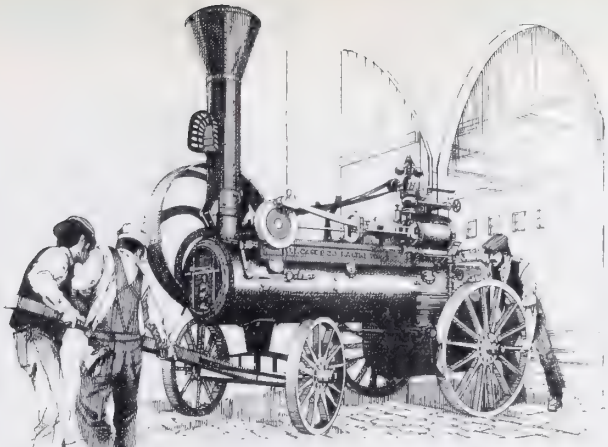
GANNETT

A WORLD OF DIFFERENT VOICES
WHERE FREEDOM SPEAKS

THE FORBES SALES 500

Rank 1980	Rank 1979	Company	Sales ($000,000)	% change over 1979
6	7	Standard Oil Calif	40,479	35.2
7	5	Ford Motor	37,086	–14.8
8	14	Engelhard Minerals	26,570	47.0
9	8	Gulf Oil	26,483	10.8
10	10	IBM	26,213	14.7
11	13	Standard Oil Ind	26,133	40.4
12	9	Sears Roebuck	25,124	2.4
13	11	General Electric	24,959	11.1
14	12	Intl Tel & Tel	23,819	8.3
15	15	Atlantic Richfield	23,744	46.3
16	16	Shell Oil	19,830	37.4
17	20	Conoco	18,301	44.7
18	17	Safeway Stores	15,103	10.1
19	26	Citicorp	14,211	30.3
20	19	K mart	14,204	10.5
21	21	E I du Pont	13,652	8.6
22	30	Phillips Petroleum	13,377	40.8
23	23	Aetna Life & Cas	13,318	16.3
24	25	Tenneco	13,226	18.0
25	27	Sun Company	12,945	21.4
26	18	United States Steel	12,492	–3.4
27	29	Occidental Petroleum	12,476	30.6
28	35	United Technologies	12,324	36.1
29	31	BankAmerica	12,075	27.8
30	24	J C Penney	11,353	0.7
31	42	Standard Oil Ohio	11,023	39.3
32	32	Procter & Gamble	10,772	15.5
33	33	Dow Chemical	10,626	14.8
34	36	Kroger	10,317	14.3
35	82	Getty Oil	10,150	110.1
36	34	Union Carbide	9,994	8.9
37	46	Union Oil California	9,984	31.9
38	28	General Tel & Elec	9,979	0.2
39	40	Eastman Kodak	9,734	21.3
40	39	Boeing	9,426	15.9
41	■	Dart & Kraft	9,412	6.7
42	22	Chrysler	9,225	–23.1
43	43	Travelers	8,790	11.4
44	45	Caterpillar Tractor	8,598	12.9
45	49	Westinghouse Elec	8,514	16.1
46	51	R J Reynolds Inds	8,449	18.4
47	38	Goodyear	8,444	2.5
48	44	Halliburton	8,327	7.2
49	47	Beatrice Foods	8,291	11.0
50	52	Xerox	8,197	16.6
51	57	Marathon Oil	8,180	22.4
52	58	Ashland Oil	8,118	25.4
53	48	RCA	8,011	7.5
54	41	LTV	8,010	0.2
55	64	Chase Manhattan	8,003	31.6
56	54	Amerada Hess	7,869	16.2
57	60	Cities Service	7,786	24.1
58	63	Philip Morris	7,328	19.3
59	53	F W Woolworth	7,218	6.4
60	62	Rockwell Intl	6,907	11.8
61	50	Bethlehem Steel	6,743	–5.5
62	56	Great Atl & Pac Tea	6,684	–10.5
63	61	Monsanto	6,574	6.2
64	65	Lucky Stores	6,469	11.2
65	119	American Stores	6,420	69.6
66	37	Intl Harvester	6,312	–24.8
67	66	Federated Dept Stores	6,301	8.5
68	69	Household Finance	6,182	16.4
69	73	W R Grace	6,101	15.8
70	68	Minn Mining & Mfg	6,080	11.7
71	72	McDonnell Douglas	6,066	14.9
72	75	PepsiCo	5,975	17.4
73	67	General Foods	5,960	8.9
74	79	Coca-Cola	5,913	19.2
75	78	Armco	5,678	12.8
76	95	Continental Group	5,657	15.1
77	97	Allied Corp	5,519	27.4
78	86	American Express	5,504	17.9
79	80	Deere	5,470	10.9
80	110	Lockheed	5,396	33.0
81	81	Winn-Dixie Stores	5,389	9.3
82	77	City Investing	5,386	6.9
83	84	Consolidated Foods	5,343	13.2
84	70	Gulf & Western Inds	5,338	0.9
85	76	Connecticut General	5,279	3.7
86	94	Pacific Gas & Elec	5,259	20.3
87	89	INA	5,255	15.5
88	116	Mfrs Hanover	5,189	34.9
89	129	J P Morgan	5,173	42.4
90	83	Alcoa	5,148	7.6
91	92	Colgate-Palmolive	5,130	14.2
92	100	Coastal Corp	5,115	19.3
93	104	Fedl Natl Mortgage	5,081	20.6
94	90	International Paper	5,043	11.2
95	117	UAL	5,041	31.6
96	96	Trans World	5,018	15.8
97	74	Georgia-Pacific	5,016	–3.7
98	125	Raytheon	5,002	34.2
99	88	TRW	4,984	9.3
100	106	Honeywell	4,925	17.0
101	87	Ralston Purina	4,886	6.2
102	131	Schlumberger	4,884	37.6
103	71	Firestone	4,851	–8.2
104	■	CSX	4,841	20.2
105	105	Johnson & Johnson	4,837	14.9
106	112	Union Pacific	4,832	21.1
107	132	Fluor	4,826	36.2
108	91	American Can	4,812	6.6
109	107	Sperry	4,785	14.5
110	85	Greyhound	4,766	1.4
111	115	Southland	4,759	23.4
112	109	General Dynamics	4,743	16.8
113	140	Continental Illinois	4,716	39.7
114	103	Iowa Beef Processors	4,639	10.0
115	98	Borden	4,596	6.6
116	93	Weyerhaeuser	4,536	
117	101	Charter	4,518	
118	111	Transamerica	4,384	
119	99	Signal Companies	4,336	
120	146	Chemical New York	4,300	3
121	120	American Brands	4,277	1
122	165	Texas Eastern	4,273	4
123	121	Jewel Companies	4,268	1
124	108	Litton Industries	4,247	
125	118	Loews	4,238	1
126	134	Super Valu Stores	4,204	2
127	123	General Mills	4,170	1
128	124	IC Industries	4,142	1
129	157	Utd Energy Resources	4,135	3
130	126	CPC International	4,120	1
131	151	Texas Instruments	4,075	2
132	139	Dayton-Hudson	4,034	1
133	136	Dresser Industries	4,016	1
134	206	Pan Am World Airways	4,016	6
135	127	CBS	3,963	
136	149	Burlington Northern	3,954	2
137	142	Consolidated Edison	3,947	1
138	130	Teledyne	3,920	
139	133	Owens-Illinois	3,906	1
140	114	Bendix	3,862	
141	148	American Airlines	3,821	1
142	150	Control Data	3,809	1
143	137	American Home Prod	3,799	1
144	158	Southern Company	3,763	2
145	135	United Brands	3,763	
146	113	Republic Steel	3,760	–
147	172	American Elec Power	3,756	3
148	122	Champion Intl	3,753	
149	102	National Steel	3,707	–1
150	180	Bankers Trust N Y	3,693	3
151	143	Foremost-McKesson	3,662	1
152	198	So Calif Edison	3,661	4
153	145	Reynolds Metals	3,653	1
154	170	Columbia Gas Sys	3,637	2
155	161	El Paso	3,543	1
156	223	Tesoro Petroleum	3,528	4
157	144	FMC	3,482	
158	152	Warner-Lambert	3,479	
159	186	Kerr-McGee	3,478	2
160	154	American Cyanamid	3,454	
161	168	Eastern Air Lines	3,453	1
162	147	Continental Corp	3,419	
163	189	First Chicago	3,415	2
164	138	Textron	3,377	–
165	155	Celanese	3,348	
166	243	Pacific Lighting	3,328	5
167	181	Commonwlth Edison	3,324	2
168	162	NCR	3,322	1
169	185	Western Bancorp	3,296	2
170	175	Anheuser-Busch Cos	3,295	1

■ Not on 500 list in 1979



"That contraption will never replace draft horses
In 1869 Steam Engine #1 emerged from the factory
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to becoming a world leader in mechanized
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The best in new technology.

The wondrous machine in the top illustration first appeared at harvest 111 years ago, doing the work of six horses and helping launch the miracle of mechanized agriculture. Case Steam Engine #1 now stands at the main entrance of the Smithsonian Institution in Washington, D.C.

Case has been at the cutting edge of mechanized power since 1842, providing new technology for agriculture and construction. Today Case offers the broadest line of construction equipment of any company, including its new trenchers — the most advanced Case has ever produced. J I Case makes quality trenchers, like the DH5 pictured here; excavators, loaders, dozers, loader/backhoes, and compaction equipment — and ranks as the second largest construction equipment company in North America.

The construction machines of Case, including its Drott and Poclain lines, continue the Case heritage of providing the best in new technology.

J I Case
A Tenneco Company

700 State Street Racine, WI 53404 U S A

case

Rank 1980	Rank 1979	Company	Sales ($000,000)	% change over 1979
171	156	McDermott	3,283	4.4
172	128	Inland Steel	3,256	–10.4
173	171	Carnation	3,236	14.5
174	166	Kaiser Alum & Chem	3,222	10.1
175	199	Santa Fe Industries	3,215	25.8
176	141	Eaton	3,176	–5.5
177	164	May Dept Stores	3,173	6.6
178	160	PPG Industries	3,158	2.2
179	178	Bristol-Myers	3,158	14.7
180	177	Combustion Engnrng	3,146	14.1
181	226	Diamond Shamrock	3,143	33.4
182	212	Security Pacific	3,117	27.8
183	225	Hewlett-Packard	3,099	31.3
184	183	Motorola	3,099	14.2
185	163	B F Goodrich	3,080	3.1
186	192	Emerson Electric	3,067	17.3
187	173	Crown Zellerbach	3,067	9.4
188	188	Albertson's	3,039	13.7
189	202	Amer Natl Resources	3,039	21.3
190	204	InterNorth	3,038	21.5
191	245	Pillsbury	3,032	40.0
192	179	Pfizer	3,029	10.3
193	254	Merrill Lynch	3,022	47.3
194	167	Boise Cascade	3,019	3.5
195	193	Standard Brands	3,018	15.5
196	211	Peoples Energy	3,016	23.5
197	216	Pub Svc Elec & Gas	2,994	23.9
198	200	Ingersoll-Rand	2,971	16.9
199	184	Norton Simon	2,959	9.4
200	215	Delta Air Lines	2,957	21.8
201	169	AMAX	2,949	2.9
202	55	Esmark	2,925	–56.6
203	207	H J Heinz	2,925	18.4
204	187	Burlington Inds	2,901	8.4
205	203	Time Inc	2,882	15.1
206	249	Wickes Companies	2,877	37.3
207	195	Northwest Industries	2,876	11.5
208	190	Southern Pacific	2,860	8.9
209	174	Burroughs	2,857	2.6
210	248	Levi Strauss	2,841	35.1
211	201	Fleming Companies	2,817	12.3
212	265	ARA Services	2,806	40.1
213	231	Archer Danls Midland	2,802	21.9
214	194	Singer	2,787	7.3
215	220	Merck	2,734	14.7
216	205	St Regis Paper	2,714	8.6
217	228	American Intl Group	2,709	16.4
218	197	Mead	2,707	5.4
219	240	ENSERCH	2,695	20.4
220	210	Lincoln National	2,693	10.1
221	214	American Standard	2,674	10.0
222	182	Borg-Warner	2,673	–1.6
223	217	North Amer Philips	2,658	10.4
224	218	Carter Hawley Hale	2,633	9.3
225	222	Supermarkets General	2,629	10.8
226	330	Transco Companies	2,628	72.0
227	250	Martin Marietta	2,619	27.1
228	241	Kimberly-Clark	2,600	17.2
229	221	Avon Products	2,569	8.1
230	229	Beneficial Corp	2,569	11.0
231	224	Nabisco	2,569	8.7
232	236	Campbell Soup	2,561	13.9
233	242	Eli Lilly	2,559	16.0
234	159	American Motors	2,553	–18.1
235	262	Wells Fargo	2,545	26.2
236	233	Kidde	2,539	11.2
237	176	Dana	2,524	–8.6
238	256	Consol Natural Gas	2,503	22.3
239	227	Hercules	2,485	6.0
240	255	Pennzoil	2,483	21.0
241	269	Panhandle Eastern	2,472	25.6
242	270	Quaker Oats	2,405	22.3
243	274	Tosco	2,387	24.2
244	251	R H Macy	2,374	15.3
245	260	Interco	2,368	17.0
246	289	Digital Equipment	2,368	31.3
247	282	Houston Industries	2,367	27.7
248	290	Houston Natural Gas	2,358	31.2
249	271	Florida Power & Lt	2,347	21.4
250	287	Middle South Utils	2,342	28.5
251	257	Amer Hospital Supply	2,340	14.7
252	315	First Natl Boston	2,333	42.5
253	261	Melville	2,332	15.3
254	266	Gillette	2,315	16.7
255	264	Consumers Power	2,304	15.0
256	196	Uniroyal	2,299	–10.7
257	239	Allied Stores	2,299	2.6
258	278	American General	2,292	21.5
259	237	Owens-Corning Fbrgls	2,285	1.8
260	234	Johns-Manville	2,267	–0.7
261	371	McGraw-Edison	2,264	70.1
262	258	Amer Broadcasting	2,256	11.2
263	213	Kennecott	2,256	–7.3
264	247	U S Fidelity & Gty	2,253	5.5
265	235	Whirlpool	2,243	–0.8
266	191	IU International	2,239	–14.5
267	267	Missouri Pacific	2,237	12.9
268	275	Alco Standard	2,234	16.5
269	308	Texas Gas Transmn	2,230	32.2
270	232	Genl Tire & Rubber	2,215	–3.5
271	259	Gould	2,205	8.7
272	304	Revlon	2,203	28.2
273	238	Ogden	2,187	–2.4
274	276	McDonald's	2,184	14.3
275	298	Texas Utilities	2,175	23.8
276	246	Colt Industries	2,166	1.2
277	284	Kellogg	2,152	16.5
278	272	Avco	2,150	11.3
279	321	Phila Electric	2,123	34.5
280	305	Va Electric & Power	2,120	24.5
281	288	NL Industries	2,118	[illegible]
282	319	American Petrofina	2,098	[illegible]
283	277	Scott Paper	2,083	
284	208	Fruehauf	2,082	–
285	291	Dillon Companies	2,077	
286	283	Williams Companies	2,073	
287	268	Allis-Chalmers	2,064	
288	312	Warner Commun	2,059	[illegible]
289	280	Stop & Shop	2,059	
290	263	White Consolidated	2,057	
291	313	Pittston	2,052	[illegible]
292	309	Abbott Laboratories	2,038	[illegible]
293	427	Penn Central	2,014	[illegible]
294	322	Crocker National	2,006	[illegible]
295	325	Murphy Oil	1,967	[illegible]
296	273	Jim Walter	1,967	
297	293	Associated Dry Goods	1,952	
298	300	Crum & Forster	1,932	[illegible]
299	286	Koppers	1,929	
300	307	Amfac	1,922	[illegible]
301	285	J P Stevens	1,916	
302	292	United Telecom	1,912	
303	299	SCM	1,892	
304	294	St Paul Companies	1,868	
305	354	Marine Midland Bks	1,859	[illegible]
306	314	Times Mirror	1,857	[illegible]
307	316	Malone & Hyde	1,854	[illegible]
308	295	Olin	1,853	
309	358	Cooper Industries	1,842	[illegible]
310	338	General Public Utils	1,832	[illegible]
311	302	ASARCO	1,817	[illegible]
312	306	Detroit Edison	1,813	[illegible]
313	323	Emhart	1,803	[illegible]
314	342	Intl Minerals & Chem	1,790	[illegible]
315	345	Turner Construction	1,789	[illegible]
316	333	Niagara Mohawk Pwr	1,777	[illegible]
317	357	Oscar Mayer	1,774	[illegible]
318	363	SmithKline	1,772	[illegible]
319	■	MAPCO	1,770	[illegible]
320	334	Upjohn	1,768	[illegible]
321	348	So Natural Resources	1,744	[illegible]
322	209	Central Soya	1,744	[illegible]
323	360	Morrison-Knudsen	1,744	[illegible]
324	310	Ethyl	1,741	[illegible]
325	326	NICOR	1,740	[illegible]
326	377	Irving Bank	1,740	[illegible]
327	351	Schering-Plough	1,740	[illegible]
328	317	Castle & Cooke	1,734	[illegible]
329	355	Central & South West	1,731	[illegible]
330	341	Grumman	1,729	[illegible]
331	318	Rohm & Haas	1,725	[illegible]
332	335	Marriott	1,719	[illegible]
333	296	National Distillers	1,710	[illegible]
334	380	Wal-Mart Stores	1,705	[illegible]
335	339	Anderson, Clayton	1,703	[illegible]

■ Not on 500 list in 1979.

Swiss Bank Corporation:

Your key to foreign exchange and money markets.

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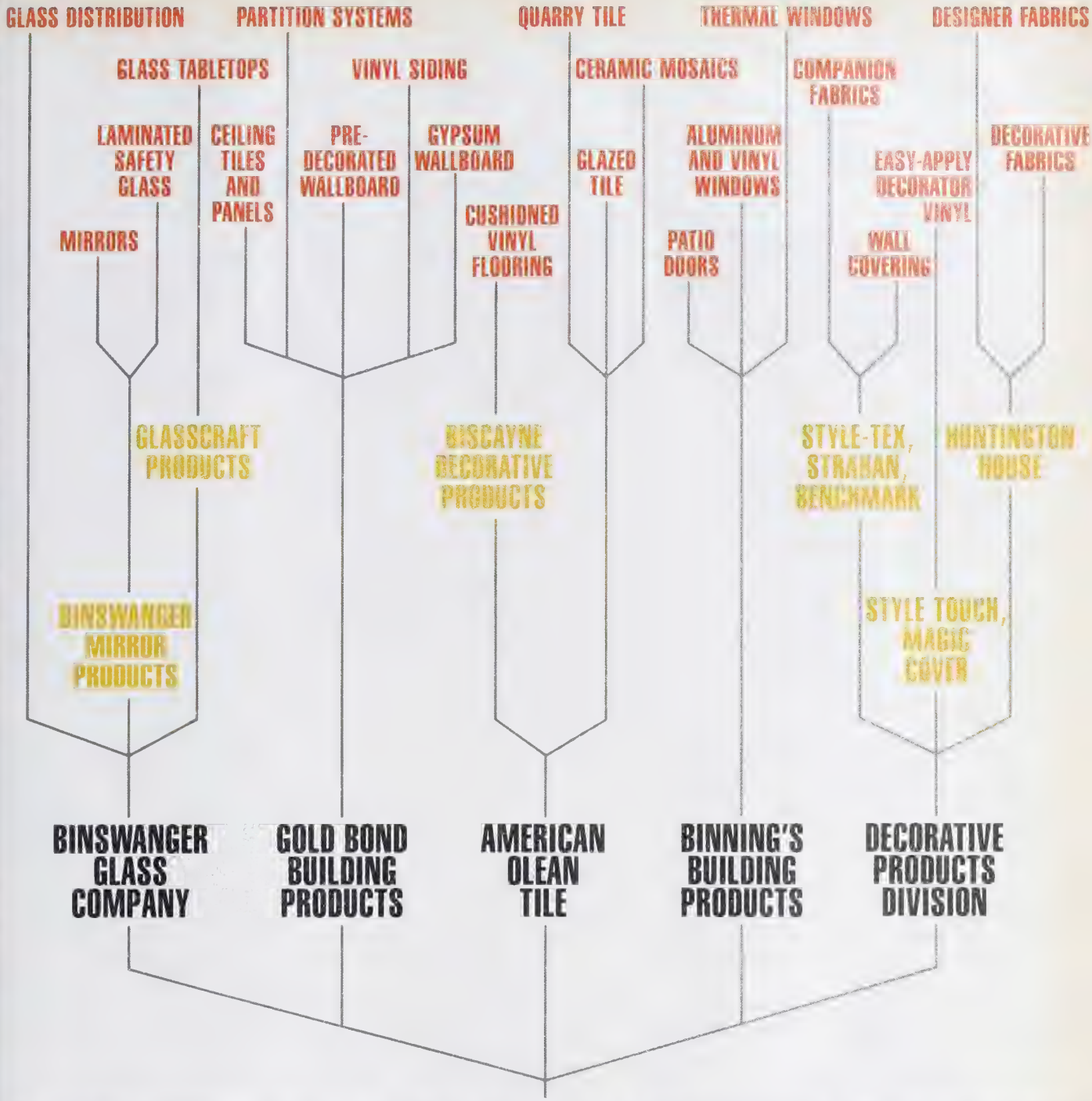
Swiss Bank Corporation

Rank 1980	Rank 1979	Company	Sales ($000,000)	% change over 1979
336	375	Valero Energy	1,702	28.8
337	336	Sterling Drug	1,701	13.4
338	331	Stauffer Chemical	1,695	11.1
339	344	Ryder System	1,694	16.5
340	337	Duke Power	1,683	12.7
341	346	Squibb	1,676	15.4
342	279	PACCAR	1,674	–11.1
343	297	Cummins Engine	1,667	–5.9
344	350	A E Staley Mfg	1,656	15.4
345	320	Northrop	1,655	4.6
346	303	Consol Freightways	1,654	–3.9
347	376	Northwest Airlines	1,639	25.1
348	343	Southern Railway	1,638	11.6
349	408	Clark Oil & Refining	1,623	40.3
350	411	Mellon National	1,595	38.9
351	328	Zayre	1,594	2.9
352	252	Fuqua Industries	1,590	–22.7
353	347	Norfolk & Western Ry	1,576	8.8
354	359	Union Camp	1,575	13.4
355	311	Foster Wheeler	1,563	–5.5
356	364	National Can	1,551	15.1
357	373	Jack Eckerd	1,548	16.8
358	405	Baker International	1,547	32.4
359	301	Clark Equipment	1,539	–11.4
360	349	AMF	1,534	6.7
361	421	Holiday Inns	1,534	37.8
362	366	Walgreen	1,531	13.8
363	352	Corning Glass Works	1,530	7.6
364	493	Tiger International	1,528	66.0
365	324	Crane	1,528	–2.9
366	367	General Signal	1,522	13.3
367	329	Chromalloy American	1,518	–1.2
368	428	Superior Oil	1,498	38.0
369	388	Giant Food	1,483	19.4
370	412	Northwest Bancorp	1,478	29.0
371	332	United States Gypsum	1,474	–3.4
372	356	Crown Cork & Seal	1,460	4.1
373	387	Kemper	1,460	17.1
374	365	Braniff Intl	1,452	7.9
375	361	Polaroid	1,451	6.6
376	383	Phelps Dodge	1,440	12.4
377	399	Black & Decker	1,438	19.4
378	369	Genuine Parts	1,432	7.0
379	378	Heublein	1,430	9.7
380	414	Petrolane	1,425	24.6
381	340	Evans Products	1,423	–3.9
382	372	Lear Siegler	1,423	7.2
383	390	Air Prods & Chems	1,421	15.5
384	370	Fisher Foods	1,413	5.7
385	391	Westvaco	1,410	15.2
386	374	Sunbeam	1,406	6.3
387	362	MCA	1,404	3.7
388	419	Cabot	1,404	25.1
389	445	Blue Bell	1,398	35.8
390	433	Whittaker	1,396	30.0
391	392	Tandy	1,385	13.9
392	434	First Intl Bshs	1,383	29.1
393	404	Chesebrough-Pond's	1,380	17.3
394	403	Baxter Travenol Labs	1,374	15.4
395	407	Gt Northern Nekoosa	1,373	18.6
396	396	H F Ahmanson	1,371	13.2
397	401	No Indiana Pub Svc	1,367	14.2
398	422	First Natl Supermkts	1,365	22.8
399	409	Dillingham	1,362	17.9
400	385	Reliance Group	1,351	6.7
401	382	Timken	1,338	4.4
402	441	First Bank System	1,336	26.7
403	406	Hershey Foods	1,335	15.0
404	■	Sigmor	1,328	69.9
405	432	Northeast Utilities	1,325	23.3
406	420	Northwest Energy	1,323	18.2
407	368	Armstrong World Inds	1,323	–1.4
408	353	George A Hormel	1,322	–6.5
409	394	Safeco	1,317	8.6
410	469	Natomas	1,316	36.0
411	464	Harris Corp	1,301	32.5
412	475	Wheelabrator-Frye	1,300	37.3
413	402	Chubb	1,292	8.1
414	439	Amstar	1,285	21.6
415	393	Commonwealth Oil	1,284	5.8
416	381	Diamond Intl	1,283	–0.1
417	418	Norton	1,282	13.1
418	410	St Joe Minerals	1,279	11.4
419	444	Long Island Lighting	1,277	22.1
420	424	Waldbaum	1,272	15.2
421	417	Continental Tel	1,268	11.7
422	440	Crown Central Petrol	1,267	20.1
423	447	Avnet	1,267	23.2
424	400	Sherwin-Williams	1,264	5.6
425	415	Commercial Metals	1,262	10.5
426	■	Seatrain Lines	1,257	59.2
427	448	Pitney Bowes	1,257	22.7
428	474	Republic of Texas	1,246	31.1
429	453	West Point-Pepperell	1,246	23.0
430	438	Wetterau	1,239	17.0
431	■	Hospital Corp of Am	1,232	36.8
432	451	Baltimore Gas & Elec	1,226	20.9
433	413	Brown Group	1,221	6.6
434	443	National Tea	1,219	16.6
435	436	Gannett	1,215	14.1
436	■	Santa Fe Intl	1,209	131.2
437	■	Hughes Tool	1,206	49.9
438	386	Brunswick	1,200	–4.6
439	457	Sysco	1,198	19.6
440	379	Louisiana-Pacific	1,196	–8.2
441	416	GK Technologies	1,190	4.3
442	429	Pennwalt	1,189	10.1
443	■	Texas Oil & Gas	1,186	32.2
444	431	Zenith Radio	1,186	10.3
445	430	Hammermill Paper	1,183	9.9
446	473	Dun & Bradstreet	1,176	2
447	470	Witco Chemical	1,176	2
448	■	Alleghany	1,166	4
449	398	Libbey-Owens-Ford	1,160	–
450	449	Allegheny Power	1,160	1
451	442	No States Power	1,159	1
452	490	Public Service Colo	1,156	2
453	452	AMP	1,155	1
454	425	Roadway Express	1,155	
455	384	U S Industries	1,145	–1
456	■	E F Hutton Group	1,125	5
457	458	Food Fair	1,124	–2
458	489	Humana	1,117	2
459	461	Dravo	1,114	1
460	456	Campbell Taggart	1,113	1
461	472	R R Donnelley & Sons	1,111	1
462	435	Mercantile Stores	1,108	.
463	■	General Re	1,104	2
464	■	Bank of New York	1,102	3
465	465	Knight-Ridder News	1,099	1
466	488	Revco D S	1,093	1
467	■	Texasgulf	1,090	3
468	■	New England Electric	1,090	2
469	389	Wheeling-Pitts Steel	1,084	–1
470	455	Rexnord	1,084	
471	■	G D Searle	1,082	2
472	459	Ohio Edison	1,081	
473	484	U S Home	1,081	1
474	477	Union Electric	1,078	1
475	491	Carolina Pwr & Lt	1,076	1
476	479	Harsco	1,063	1
477	468	Fed-Mart	1,062	
478	■	First City Bancorp	1,061	3
479	494	Flickinger	1,061	1
480	■	Centex	1,057	2
481	423	Interlake	1,056	–
482	454	Akzona	1,054	
483	■	Louisiana Land	1,053	3
484	500	Zale	1,042	1
485	■	Seafirst	1,037	2
486	463	ACF Industries	1,029	
487	■	Texas Commerce Bshs	1,029	3
488	■	NBD Bancorp	1,023	2
489	■	Parker-Hannifin	1,022	2
490	471	Ex-Cell-O	1,021	
491	■	Centl Louisiana Engy	1,013	4
492	■	Marshall Field	1,013	1
493	486	Intl Multifoods	1,012	
494	■	Wisconsin Elec Pwr	1,007	1
495	■	Gulf States Utils	1,005	1
496	■	Eastern Gas & Fuel	1,003	1
497	498	Borman's	1,001	1
498	■	McGraw-Hill	1,000	1
499	482	Cessna Aircraft	1,000	6
500	■	Square D	999	2

■ Not on 500 list in 1979



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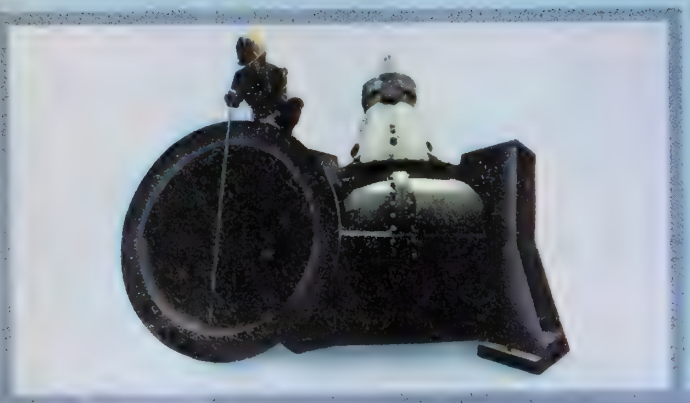
National Gypsum believes in the future, and because we believe, we're committing the dollar equivalent of 21% of last year's sales toward making that future brighter for everyone.

America will always be building. And National Gypsum is determined to be a part of that growth. In the next two years, we're increasing gypsum capacity by 15%. And we've recently increased ceramic tile capacity by 27%. Separately, each of the companies under our umbrella is making its own contribution. And together, we're National Gypsum Company building for the future.

National Gypsum Company

A family of companies building for the future.

How an industrial product from Colt Industries will help keep the Sacramento River a favorite with fish and fishermen.



To process 138,000,000 gallons of waste water a day, the Sacramento (California) Regional County Sanitation District is building one of the largest computer-controlled treatment plants in the nation. Here, giant solids-handling centrifugal pumps from our Fairbanks Morse Pump Division will help move the liquid stream from initial entry to final discharge as a highly purified effluent that will help keep the Sacramento River as clean and full of sturgeon as ever.

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Colt Industries

There were some strong profit performances, and not just by the oils. For a good many others 1980 was a year to forget, with 125 of the top 500 actually showing profit declines.

THE COMPANIES MAKING the Profits 500 list for 1980 reported total earnings of $118.6 billion, up just 7.7% from the $110.2 billion reported for the Profits 500 in 1979. That's not only less than the inflation rate last year as measured by the CPI (12.4%), but less than the 9.9% rate as measured by the more sophisticated "implicit deflator" for personal consumption expenditures. The numbers tracking cash flow are a bit worse—a total of $226.5 billion for the Profits 500 last year, up only 7.1% from the $211.4 billion in 1979.

There were strong performances, to be sure—and not just from the oil companies, which accounted for eight of the ten most profitable U.S. companies last year, reporting profit gains that averaged 36.5%. Several banks (notably Irving Bank and Chemical New York) showed strong earnings gains, and a range of companies with strong consumer franchises, like Colgate-Palmolive and H.J. Heinz, also looked relatively good.

But 1980 was a year a good many companies were glad to put behind them, with 125 of the Profits 500 showing profit declines (*vs.* 53 in 1979). Among the harder-hit groups: retailers, insurance companies, forest products outfits and—what else?—companies whose prospects were tied to the auto business. Missing altogether from the Profits 500, of course, were two companies that had been accustomed to being right near the top—General Motors, which lost $763 million last year, and Ford, which lost $1.5 billion.

Rank 1980	Rank 1979	Company	Net profits ($000,000)	% change over 1979	Cash flow ($000,000)
1	1	**American Tel & Tel**	6,079.7	7.1	15,367
2	2	**Exxon**	5,650.1	31.5	10,778
3	3	**IBM**	3,562.0	18.3	7,023
4	5	**Mobil**	2,813.0	40.1	4,823
5	6	**Standard Oil Calif**	2,400.8	34.5	3,972
6	7	**Texaco**	2,240.2	27.4	3,956
7	8	**Standard Oil Ind**	1,915.3	27.1	3,618
8	11	**Standard Oil Ohio**	1,811.2	52.7	2,591
9	13	**Atlantic Richfield**	1,651.4	41.6	3,247
10	14	**Shell Oil**	1,542.0	37.0	2,989
11	9	**General Electric**	1,514.0	7.5	2,339
12	10	**Gulf Oil**	1,407.0	6.4	2,955
13	15	**Eastman Kodak**	1,153.6	15.3	1,583
14	17	**Phillips Petroleum**	1,069.6	20.0	1,928
15	18	**Conoco**	1,026.2	25.9	1,832
16	22	**Schlumberger**	994.3	51.0	1,185
17	49	**Intl Tel & Tel**	895.6	134.2	3,142
18	25	**Getty Oil**	871.9	44.2	1,675
19	20	**Dow Chemical**	805.0	2.7	1,597
20	28	**Tenneco**	725.6	27.1	1,531

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Rank 1980	Rank 1979	Company	Net profits ($000,000)	% change over 1979	Cash flow ($000,000)	Cash flow rank 1980
21	21	Sun Company	723.0	3.3	1,542	24
22	16	E I du Pont	716.0	–23.8	1,634	21
23	30	Occidental Petroleum	710.8	26.6	1,364	28
24	23	Minn Mining & Mfg	678.0	3.5	973	38
25	32	Union Carbide	672.7	20.9	1,211	29
26	33	R J Reynolds Inds	670.4	21.7	1,171	31
27	42	Union Oil California	647.0	29.2	1,415	27
28	26	BankAmerica	643.4	7.2	1,053	34
29	27	Procter & Gamble	642.8	11.3	883	43
30	29	Xerox	619.2	10.0	1,815	19
31	40	Boeing	600.5	18.8	910	42
32	38	Philip Morris	576.8	13.6	838	47
33	19	Sears Roebuck	566.0	–27.9	1,500	26
34	43	Caterpillar Tractor	564.8	14.9	955	40
35	39	Amerada Hess	540.2	6.5	1,047	35
36	57	Engelhard Minerals	532.7	52.3	622	67
37	44	Pacific Gas & Elec	524.8	14.5	615	69
38	31	Aetna Life & Cas	508.3	–9.2	3,393	8
39	51	Halliburton	500.3	32.6	737	54
40	34	Citicorp	499.0	–7.8	883	44
41	24	General Tel & Elec	477.9	–25.9	2,061	15
42	58	Cities Service	477.5	37.4	1,002	36
43	314	Esmark	471.8	410.5	689	57
44	54	AMAX	470.4	28.8	624	65
45	41	Alcoa	469.9	–6.9	736	55
46	■	United States Steel	458.9	D–P	997	37
47	46	American Home Prod	445.9	12.6	526	85
48	45	Coca-Cola	422.1	0.5	627	64
49	50	Merck	415.4	8.8	524	86
50	59	American Brands	405.5	16.7	463	95
51	48	Union Pacific	404.5	5.8	823	48
52	63	Westinghouse Elec	402.9	21.7	541	81
53	56	Johnson & Johnson	400.7	13.8	587	73
54	67	United Technologies	393.4	20.8	640	62
55	■	Dart & Kraft	383.1	6.5	561	77
56	73	Commonwlth Edison	382.0	28.8	692	56
57	74	Marathon Oil	379.0	28.4	801	49
58	62	American Express	376.0	8.9	1,155	33
59	47	Travelers	365.6	–5.7	1,824	18
60	72	Chase Manhattan	354.2	16.9	609	70
61	85	American Elec Power	348.4	33.7	750	53
62	110	Southern Company	344.4	57.2	930	41
63	65	Eli Lilly	342.0	3.8	421	113
64	75	J P Morgan	341.7	18.6	457	98
65	60	Teledyne	338.6	–2.3	296	178
66	68	Consolidated Edison	334.7	3.3	632	63
67	124	Superior Oil	334.5	67.0	686	58
68	37	Weyerhaeuser	321.5	–37.2	850	46
69	61	So Calif Edison	317.5	–8.3	398	121
70	81	Connecticut General	316.7	17.3	1,163	32
71	78	RCA	315.3	11.1	750	52
72	36	International Paper	314.0	–40.2	597	71
73	80	Duke Power	311.1	13.2	422	112
74	92	Pennzoil	308.5	29.3	618	68
75	96	SmithKline	308.0	31.7	358	148
76	104	Santa Fe Industries	301.8	32.5	536	83
77	113	Texas Utilities	297.8	41.1	549	78
78	82	PepsiCo	291.8	10.2	493	88
79	135	Litton Industries	290.8	54.0	465	93
80	84	Beatrice Foods	290.1	11.2	456	99
81	■	Allied Corp	289.0	2,569.3	594	[illegible]
82	210	Texasgulf	286.5	109.3	360	[illegible]
83	107	W R Grace	283.8	27.5	563	[illegible]
84	127	Raytheon	282.3	43.2	426	[illegible]
85	101	American Intl Group	282.2	21.9	678	[illegible]
86	■	CSX	281.6	11.6	545	[illegible]
87	91	Honeywell	280.9	17.0	524	[illegible]
88	83	Rockwell Intl	280.2	7.3	407	[illegible]
89	89	INA	278.6	13.9	880	[illegible]
90	119	Federated Dept Stores	277.7	36.7	383	[illegible]
91	106	Sperry	277.1	23.6	479	[illegible]
92	97	Pub Svc Elec & Gas	275.4	18.0	384	[illegible]
93	100	Bristol-Myers	270.6	16.9	327	[illegible]
94	120	Hewlett-Packard	269.0	32.5	389	[illegible]
95	109	Armco	265.3	20.0	439	[illegible]
96	103	Dresser Industries	261.1	14.5	396	[illegible]
97	55	K mart	260.5	–27.2	453	[illegible]
98	99	General Foods	255.8	10.2	330	[illegible]
99	105	Gulf & Western Inds	255.3	12.2	383	[illegible]
100	94	Pfizer	254.8	7.1	353	[illegible]
101	95	NCR	254.7	8.6	527	[illegible]
102	151	Digital Equipment	249.9	40.0	357	[illegible]
103	98	Kaiser Alum & Chem	247.6	6.6	280	[illegible]
104	66	Georgia-Pacific	244.0	–25.4	566	[illegible]
105	128	Va Electric & Power	241.6	23.0	392	[illegible]
106	87	Avon Products	241.3	–3.8	290	[illegible]
107	93	Transamerica	239.3	0.3	540	[illegible]
108	108	Schering-Plough	239.3	7.7	289	[illegible]
109	121	Emerson Electric	237.7	18.3	319	[illegible]
110	90	J C Penney	233.0	–4.5	384	[illegible]
111	126	Norfolk & Western Ry	232.4	17.0	326	[illegible]
112	112	Mfrs Hanover	228.5	8.0	354	[illegible]
113	102	U S Fidelity & Gty	228.5	–0.2	959	[illegible]
114	70	Deere	228.3	–26.5	389	[illegible]
115	131	Phila Electric	227.1	16.8	323	[illegible]
116	129	Continental Illinois	225.9	15.4	381	[illegible]
117	118	Western Bancorp	225.1	10.7	391	[illegible]
118	134	Continental Group	224.2	17.2	441	[illegible]
119	116	Consumers Power	223.8	9.8	306	[illegible]
120	133	Levi Strauss	223.7	16.8	267	[illegible]
121	156	Burlington Northern	222.9	26.9	394	[illegible]
122	143	Loews	222.0	22.0	675	[illegible]
123	136	McDonald's	220.9	17.1	377	[illegible]
124	144	Texas Eastern	219.8	21.7	426	[illegible]
125	86	ASARCO	216.5	–16.5	196	[illegible]
126	148	Abbott Laboratories	214.4	19.8	275	[illegible]
127	259	Bankers Trust N Y	213.8	88.0	324	[illegible]
128	158	Texas Instruments	212.2	22.7	470	[illegible]
129	130	TRW	211.9	8.9	409	[illegible]
130	138	InterNorth	211.7	14.1	415	[illegible]
131	111	PPG Industries	209.2	–4.4	359	[illegible]
132	271	Natomas	208.4	88.1	375	[illegible]
133	197	Goodyear	206.7	41.4	436	[illegible]
134	35	Ashland Oil	205.1	–61.0	361	[illegible]
135	173	Long Island Lighting	205.0	26.8	150	[illegible]
136	250	Merrill Lynch	203.3	71.3	246	[illegible]
137	152	Diamond Shamrock	201.2	13.0	410	[illegible]
138	115	Florida Power & Lt	198.3	–3.1	464	[illegible]
139	150	CPC International	197.4	10.5	281	[illegible]
140	149	Newmont Mining	197.4	10.4	232	[illegible]

■ Not on 500 list in 1979. D-P deficit to profit.

Continental Telephone Corporation has a mission in space. Just as it does in Manassas, Virginia. And in Freeport, Illinois. And in 2,000 other down-to-earth communities.

American Satellite Company, our joint venture partnership with Fairchild Industries, makes high speed voice, data and image transmission an integral part of our business. It is an important part of our becoming a dynamic force in providing integrated telecommunications services.

Another important link is Executone, Inc., a subsidiary of Continental. Executone provides terminal equipment, including intercom, paging and PABX systems for businesses, hospitals and other institutions. And cable TV is provided in selected markets through Omni Communications.

Network Analysis Corporation, another subsidiary of Continental, ties it all together. It gives us the advanced know-how to integrate voice and data networks to meet customers' needs in the rapidly changing world of telecommunications. Which brings us full circle. From Earth to the heavens and back.

We have never lost sight of our primary goals as a phone company. But we hear the future calling.

Continental Telephone Corporation

The maintenance-free battery boom is ten years old and going strong.

But long before these car batteries became popular, Grace was busy improving the technology that made them possible.

The secret is in the separators that keep the positive and negative plates from touching. They have to be tough enough to withstand acid attack. And microporous enough to allow a free flow of conducting liquids.

Through a series of technical innovations, Grace's Polyfibron Division has continued to lead the battery separator industry for over a quarter of a century.

Yet battery separators are just one of Grace's specialty chemical products. And chemicals, in turn, are just one part of Grace.

Grace, in fact, is a $6.0 billion company with balanced interests in chemicals, natural resources, and consumer products.

Since 1969, the company's net income has grown by an average of 14% annually. And shareholders have been receiving cash dividends for 47 consecutive years.

Our annual report can tell you more. Send for it by writing to W.R. Grace & Co., Grace Plaza, 1114 Avenue of the Americas, New York, NY 10036, Dept. FB

And look into a company that's looking out for America's automotive needs.

One step ahead of a changing world.

GRACE

chemicals • natural resources • consumer products

Rank 1980	Rank 1979	Company	Net profits ($000,000)	% change over 1979	Cash flow ($000,000)	Cash flow rank 1980
	205	Houston Natural Gas	196.7	41.9	292	180
	142	Middle South Utils	195.9	7.6	92	459
	139	General Dynamics	195.0	5.3	383	134
	123	CBS	193.0	–3.9	263	219
	239	Warner-Lambert	192.7	56.2	292	181
	76	Continental Corp	192.5	–33.0	565	75
	187	Revlon	192.4	26.0	248	230
	227	Kennecott	192.4	47.5	324	164
	169	Bendix	191.6	17.8	242	237
	■	Kaiser Steel	191.5	294.9	176	307
	155	Detroit Edison	188.6	7.1	331	157
	153	Martin Marietta	188.1	5.7	322	168
	182	Motorola	186.1	20.6	329	159
	165	Central & South West	185.0	21.4	359	145
	169	Kellogg	184.8	13.7	242	236
	171	Houston Industries	184.0	13.7	391	127
	194	Panhandle Eastern	183.7	24.1	442	104
	176	Kerr-McGee	182.2	13.9	426	109
	69	Kimberly-Clark	181.8	–42.2	294	179
	168	Security Pacific	181.3	10.8	380	137
	175	Southern Railway	180.9	12.6	319	171
	154	Reynolds Metals	180.3	1.8	282	193
	163	Louisiana Land	180.2	6.6	408	118
	141	Pa Power & Light	179.8	–1.3	114	414
	415	IU International	179.3	163.3	286	190
	140	United Telecom	177.3	–3.0	544	80
	215	Chemical New York	173.5	28.8	291	182
	260	Colgate-Palmolive	173.2	52.6	271	212
	198	Anheuser-Busch Cos	171.8	19.1	347	153
	184	Columbia Gas Sys	170.8	11.4	393	124
	179	St Regis Paper	170.5	7.6	280	198
	191	Upjohn	170.4	14.0	227	251
	195	General Mills	170.0	15.6	263	220
	117	Signal Companies	167.7	–17.7	239	241
	335	NL Industries	167.7	95.7	228	249
	166	American General	167.4	1.1	758	51
	145	Missouri Pacific	166.1	–7.8	269	213
	266	Utd Energy Resources	165.5	48.1	279	203
	190	Union Camp	165.1	9.2	279	201
	88	Champion Intl	164.0	–33.6	405	120
	229	Ralston Purina	163.0	27.2	274	209
	180	Niagara Mohawk Pwr	162.6	4.2	266	217
	185	Carolina Pwr & Lt	161.4	5.3	324	166
	193	Crum & Forster	161.3	8.1	365	142
	146	F W Woolworth	160.9	–10.6	225	255
	192	Ingersoll-Rand	160.3	7.3	247	231
	164	American Cyanamid	159.2	–5.5	327	160
	225	American Standard	156.9	18.7	240	239
	177	Lincoln National	156.6	–1.8	779	50
	147	Southern Pacific	155.9	–13.3	343	154
	160	Northwest Industries	155.4	–9.8	268	214
	207	Carnation	154.7	12.1	203	270
	251	Union Electric	154.7	31.1	210	260
	218	General Re	154.4	15.3	385	130
	400	Cabot	152.7	116.8	164	327
	216	Gannett	152.0	13.4	209	264
	284	Murphy Oil	150.5	45.3	622	66
	311	ENSERCH	150.2	60.2	286	189
	220	Owens-Illinois	149.4	11.9	371	141
	64	Monsanto	148.8	–55.1	668	61
201	217	Borden	147.9	10.3	277	205
202	288	Freeport Minerals	147.4	45.4	210	261
203	132	Dayton-Hudson	146.7	–23.6	215	259
204	265	Cooper Industries	146.7	31.2	194	282
205	178	Amer Broadcasting	146.3	–8.2	190	286
206	245	Intl Minerals & Chem	145.9	20.8	286	191
207	125	McDonnell Douglas	144.6	–27.4	252	228
208	242	Arizona Public Serv	143.3	17.9	174	309
209	274	H J Heinz	142.9	29.4	178	303
210	189	FMC	142.7	–5.9	300	176
211	199	Time Inc	141.2	–1.9	237	243
212	305	Texas Oil & Gas	141.1	45.1	324	163
213	249	Control Data	141.0	18.2	299	177
213	174	Household Finance	141.0	–12.5	458	97
215	277	So Natural Resources	139.5	26.8	282	195
216	233	Baltimore Gas & Elec	139.4	10.4	282	194
217	196	Times Mirror	139.2	–5.0	233	244
218	404	Williams Companies	138.7	99.7	287	187
219	293	Baker International	138.6	39.4	225	254
220	203	Peoples Energy	137.6	–2.0	340	155
221	122	Warner Commun	137.1	–31.7	188	287
222	212	Stauffer Chemical	136.6	0.5	279	200
223	157	Boise Cascade	136.3	–22.1	237	242
224	258	Walt Disney	135.2	18.8	186	290
225	214	Ohio Edison	135.2	0.3	173	310
226	222	Campbell Soup	134.6	1.4	210	262
227	262	Pacific Pwr & Lt	133.9	19.0	264	218
228	209	Scott Paper	133.5	–2.6	240	238
229	221	NLT	132.9	–0.3	290	185
230	337	Hughes Tool	132.2	56.3	204	268
231	296	Fluor	131.9	33.7	255	224
232	243	AMP	131.3	8.2	188	289
233	202	Mead	128.6	–8.8	172	311
234	264	Baxter Travenol Labs	128.4	14.7	182	294
235	188	LTV	127.9	–15.9	252	226
236	292	Nabisco	127.8	28.1	181	297
237	268	Consolidated Foods	127.7	14.6	287	188
238	236	Squibb	127.4	3.0	158	340
239	181	Borg-Warner	126.1	–19.0	160	335
240	261	Cleveland Elec Illum	125.4	10.4	181	296
241	204	MCA	125.4	–9.8	307	174
242	235	Norton Simon	124.7	0.4	180	299
243	278	Interco	124.3	16.5	160	336
244	273	Gillette	124.0	12.1	205	267
245	267	Sterling Drug	123.3	10.5	159	339
246	256	Continental Tel	122.9	7.6	375	139
247	241	Public Service Ind	122.7	–0.3	226	253
248	391	MAPCO	122.3	69.5	208	265
249	275	Amer Hospital Supply	122.2	11.7	203	271
250	201	Celanese	122.0	–13.5	320	169
251	238	Wells Fargo	121.9	–1.3	243	234
252	79	Bethlehem Steel	121.0	–56.1	444	103
253	281	IC Industries	120.7	13.5	279	199
254	405	Transco Companies	120.3	73.5	449	101
255	200	Safeway Stores	119.4	–16.7	335	156
256	228	Consol Natural Gas	118.5	–7.7	278	204
257	240	Greyhound	118.3	–3.8	170	316
258	252	Amer Natl Resources	118.2	0.2	462	96
259	300	First Intl Bshs	118.0	20.5	164	328
260	341	Gulf States Utils	117.2	39.2	186	291

■ Not on 500 list in 1979.

Rank 1980	Rank 1979	Company	Net profits ($000,000)	% change over 1979	Cash flow ($000,000)	Cash flow rank 1980
261	369	St Joe Minerals	117.1	50.9	230	247
262	257	May Dept Stores	116.9	2.5	275	208
263	302	Combustion Engnrng	116.7	19.5	195	281
264	477	Archer Danls Midland	116.0	105.5	167	318
265	183	Eaton	115.8	–24.9	221	257
266	303	Air Prods & Chems	115.5	18.4	277	206
267	234	Corning Glass Works	114.7	–8.2	149	360
268	289	Melville	114.7	13.4	169	317
269	159	Hercules	114.0	–33.9	252	227
270	315	Illinois Power	113.6	24.3	165	323
271	279	Northwest Bancorp	113.5	6.4	166	321
272	306	Mellon National	112.5	16.7	164	330
273	346	Tandy	112.2	34.9	131	386
274	230	Avco	112.2	–7.6	245	233
275	287	First Bank System	112.0	10.1	165	325
276	317	Lubrizol	111.5	22.8	144	370
277	246	No States Power	111.3	–7.8	279	202
278	186	St Paul Companies	110.4	–27.8	480	90
279	291	Coastal Corp	109.5	9.0	291	183
280	480	Holiday Inns	108.3	93.7	194	283
281	208	Safeco	107.4	–22.0	109	425
282	298	Pacific Lighting	107.0	9.2	180	300
283	286	Farmers Group	106.9	5.1	172	312
284	387	Utah Power & Light	106.6	46.8	202	273
285	294	Hilton Hotels	106.1	6.9	132	384
286	301	Chubb	105.4	7.9	166	320
287	343	Pillsbury	104.7	25.4	182	293
288	224	City Investing	104.5	–21.2	446	102
289	332	Standard Brands	104.4	20.9	180	301
290	347	American Petrofina	104.3	25.4	177	304
291	344	General Signal	104.2	25.2	135	381
292	339	Potomac Elec Power	104.1	23.4	250	229
293	456	Tesoro Petroleum	104.0	75.4	131	388
294	355	Allegheny Power	103.7	26.8	201	275
295	213	National Distillers	103.3	–23.9	158	343
296	377	R H Macy	103.0	34.8	150	358
297	323	Dun & Bradstreet	102.7	15.7	139	373
298	340	First Natl Boston	102.1	21.3	166	322
299	270	Whirlpool	101.7	–8.3	137	377
300	446	Homestake Mining	101.6	65.5	93	456
301	353	Texas Commerce Bshs	101.5	23.2	148	361
302	329	NICOR	101.4	16.0	239	240
303	445	Mitchell Enrgy & Dev	100.8	64.1	230	248
304	354	Marsh & McLennan	100.7	22.5	103	435
305	350	Chesebrough-Pond's	100.2	21.3	129	392
306	319	Gt Northern Nekoosa	99.1	9.7	192	285
307	269	Colt Industries	97.8	–12.2	156	345
308	219	Crown Zellerbach	97.4	–27.1	274	210
309	367	Intel	96.7	24.3	154	348
310	338	Quaker Oats	96.4	14.1	161	334
311	254	Crocker National	95.7	–18.1	204	269
312	167	Dana	95.7	–41.7	156	346
313	318	Combined Internatl	95.6	5.5	183	292
314	77	Mesa Petroleum	95.2	–66.7	220	258
315	364	Texas Gas Transmn	95.1	20.3	198	277
316	237	United States Gypsum	94.4	–23.6	147	365
317	334	Kroger	94.4	10.1	209	263
318	308	Rohm & Haas	93.7	–1.8	194	284
319	475	Penn Central	93.6	64.2	262	221
320	211	Delta Air Lines	93.2	–31.9	311	173
321	365	Duquesne Light	93.0	18.6	152	[illegible]
322	325	Knight-Ridder News	92.9	5.1	138	[illegible]
323	290	Beneficial Corp	92.8	–6.6	419	[illegible]
324	285	Timken	92.6	–9.3	165	[illegible]
325	348	Central Tel & Utils	92.5	11.4	253	[illegible]
326	309	Winn-Dixie Stores	92.0	–2.7	175	[illegible]
327	295	Jefferson-Pilot	91.9	–7.2	147	[illegible]
328	272	Phelps Dodge	91.3	–17.6	163	[illegible]
329	421	Pioneer	90.6	38.0	166	[illegible]
330	297	Lucky Stores	90.5	–7.8	158	[illegible]
331	310	Black & Decker	90.1	–4.6	159	[illegible]
332	333	Cincinnati G & E	90.0	4.9	119	[illegible]
333	304	Ethyl	89.7	–8.0	177	[illegible]
334	336	Capital Holding	89.5	5.5	203	[illegible]
335	406	First City Bancorp	89.0	30.0	137	[illegible]
336	359	Northeast Utilities	88.8	9.9	228	[illegible]
337	313	McDermott	88.4	–4.9	273	[illegible]
338	328	N Y State Elec & Gas	88.2	0.9	129	[illegible]
339	366	Westvaco	87.9	12.8	171	[illegible]
340	342	Kidde	87.4	3.9	125	[illegible]
341	390	Republic of Texas	86.9	20.0	119	[illegible]
342	361	Norton	86.7	8.1	131	[illegible]
343	437	Big Three Industries	86.6	37.8	153	[illegible]
344	374	McGraw-Hill	86.4	12.3	111	[illegible]
345	322	USLIFE	86.3	–3.2	284	[illegible]
346	■	Portland Genl Elec	86.2	86.9	158	[illegible]
347	320	Northrop	86.1	–4.7	98	[illegible]
347	162	Textron	86.1	–49.3	154	[illegible]
349	231	American Can	85.7	–32.7	242	[illegible]
350	■	Polaroid	85.4	136.3	148	[illegible]
351	326	G D Searle	85.3	–3.0	165	[illegible]
352	408	Irving Bank	85.3	24.9	145	[illegible]
353	372	Tektronix	85.1	10.3	117	[illegible]
354	481	Public Service Colo	85.0	52.4	162	[illegible]
355	321	Allied Stores	83.9	–6.9	130	[illegible]
356	232	National Steel	83.8	–33.8	105	[illegible]
357	345	Kemper	83.1	–0.1	488	[illegible]
358	388	Square D	83.1	14.5	110	[illegible]
359	■	E F Hutton Group	82.6	121.7	116	[illegible]
360	352	Wisconsin Elec Pwr	82.5	–0.1	201	[illegible]
361	376	MGIC Investment	82.2	7.2	147	[illegible]
362	71	Burroughs	82.0	–73.2	348	[illegible]
363	482	Centl Louisiana Engy	81.7	47.0	140	[illegible]
364	378	Burlington Inds	81.3	6.7	233	[illegible]
365	248	PACCAR	81.1	–32.5	84	[illegible]
366	485	Hospital Corp of Am	81.0	47.3	159	[illegible]
367	■	Santa Fe Intl	80.9	390.1	259	[illegible]
368	255	Johns-Manville	80.6	–29.7	181	[illegible]
369	379	Pan Am World Airways	80.3	5.4	314	[illegible]
370	433	Harris Corp	79.7	26.3	152	[illegible]
371	420	Houston Oil & Min	79.6	21.2	257	[illegible]
372	490	Smith International	79.1	44.7	118	[illegible]
373	418	Overseas Shipholding	79.1	20.0	112	[illegible]
374	414	Sundstrand	78.9	17.7	134	[illegible]
375	114	Reliance Group	78.6	–62.3	196	[illegible]
376	422	Gulf United	78.5	20.6	181	[illegible]
377	462	Cameron Iron Works	78.3	34.0	112	[illegible]
378	363	Belco Petroleum	77.9	–1.5	153	[illegible]
379	399	So New England Tel	77.8	10.4	226	[illegible]
380	412	Southland	77.7	15.1	176	[illegible]

■ Not on 500 list in 1979.

You shouldn't have to pay management consultants for things your own people can do.

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Beyond the bottom line

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Rank 1980	Rank 1979	Company	Net profits ($000,000)	% change over 1979	Cash flow ($000,000)	Cash flow rank 1980
381	493	Pittston	77.4	42.2	179	302
382	410	Heublein	77.4	13.6	116	410
383	385	Masco	77.2	5.6	102	436
384	384	New England Electric	76.4	3.9	123	402
385	478	Amfac	76.1	35.0	127	395
386	483	Cincinnati Milacron	75.6	36.4	103	434
387	427	Pitney Bowes	75.1	18.3	153	350
388	298	Jim Walter	74.7	–23.7	54	500
389	356	North Amer Philips	74.5	–8.9	127	396
390	■	Richardson-Vicks	74.5	18.3	87	468
391	380	NBD Bancorp	74.4	–1.6	106	428
392	452	Petrolane	74.0	22.9	130	390
393	■	A E Staley Mfg	73.8	212.4	114	413
394	448	Ark Louisiana Gas	73.4	20.7	145	367
395	472	Dover	73.2	28.3	91	461
396	401	Crown Cork & Seal	73.2	4.0	122	403
397	283	Gould	72.5	–31.6	123	401
398	430	Nalco Chemical	72.3	14.2	86	470
399	375	No Indiana Pub Svc	72.2	–6.0	172	313
400	396	Marriott	72.0	1.5	150	356
401	■	Reading & Bates	71.9	103.1	111	421
402	■	Alexander & Baldwin	71.9	103.6	92	460
403	492	Avnet	71.7	31.7	79	481
404	■	Kaneb Services	71.6	46.7	116	412
405	487	Public Service N M	71.4	30.4	83	478
406	428	Amsted Industries	71.2	12.3	96	449
407	■	Rowan Companies	71.2	117.2	125	399
408	426	Capital Cities Comm	70.8	11.0	87	469
409	449	GK Technologies	70.2	15.5	91	463
410	425	Vulcan Materials	69.9	9.5	125	398
411	471	Roadway Express	69.7	21.8	123	400
412	349	Ohio Casualty	69.6	–16.1	148	362
413	457	Jack Eckerd	69.3	16.8	90	465
414	429	R R Donnelley & Sons	69.0	8.9	128	394
415	■	Kansas City Pwr & Lt	68.7	88.0	105	431
416	454	Fort Howard Paper	68.7	14.8	100	441
417	459	CBI Industries	68.5	16.6	118	407
418	■	Perkin-Elmer	68.2	35.6	93	455
419	424	Seafirst	68.2	5.8	122	404
420	■	General Instrument	68.1	33.2	109	423
421	383	Florida Power	68.1	–7.4	188	288
422	373	American Natl Ins	68.0	–11.7	200	276
423	413	Blue Bell	67.9	0.9	93	454
424	440	Genuine Parts	67.8	9.9	79	483
425	460	Toledo Edison	67.2	14.6	84	475
426	496	Emhart	67.0	24.8	97	447
427	466	Foremost-McKesson	66.8	15.7	82	479
428	458	Boston Edison	66.8	13.4	135	380
429	382	Provident Life & Acc	66.7	–9.9	195	280
430	398	GATX	66.0	–7.0	221	256
431	431	Lear Siegler	65.7	3.9	94	450
432	451	Liberty Natl Ins Hold	65.6	8.5	207	266
433	■	Oklahoma Gas & Elec	65.3	30.0	129	391
434	407	Adolph Coors	65.0	–5.1	133	383
435	443	Dayton Power & Light	64.8	5.3	83	477
436	439	Becton, Dickinson	64.7	4.5	103	433
437	■	Humana	64.6	58.0	145	369
438	■	Valero Energy	64.2	337.7	91	462
439	474	So Carolina E & G	63.7	11.7	88	467
440	500	ARA Services	63.2	20.2	141	371
441	444	Intl Flavors & Frag	63.2	2.9	71	
442	■	Alaska Interstate	63.1	380.5	66	
443	263	First Chicago	63.0	–43.8	156	
444	489	Southland Royalty	62.3	13.8	151	
445	498	Hershey Foods	62.1	16.0	102	
446	351	B F Goodrich	61.7	–25.3	164	
447	416	Fuqua Industries	61.7	–7.4	101	
448	360	National Gypsum	60.7	–24.4	97	
449	■	U S Air	60.4	80.7	111	
450	280	Louisiana-Pacific	60.0	–43.6	150	
451	■	Public Service N H	59.8	47.0	61	
452	■	Joy Manufacturing	59.7	20.1	84	
453	455	GEICO	59.6	0.2	94	
454	■	Foster Wheeler	59.4	23.9	65	
455	423	Lone Star Industries	59.2	–8.5	94	
456	■	Dow Jones	58.9	15.3	74	
457	411	Willamette Inds	58.9	–13.3	105	
458	497	Tucson Electric Pwr	58.4	9.1	101	
459	468	Ogden	58.2	1.3	109	
460	403	Carter Hawley Hale	58.1	–16.7	132	
461	■	General American Oil	58.0	65.6	151	
462	■	Republic New York	57.7	82.5	'05	
463	■	U S Bancorp	57.5	10.8	82	
464	■	Whittaker	57.5	22.9	77	
465	■	Pioneer Hi-Bred Intl	57.2	45.7	66	
466	436	White Consolidated	57.0	–9.4	94	
467	■	AMF	56.6	7.6	113	
468	435	Ryder System	56.5	–10.2	266	
469	■	Alexander & Alexander	56.4	9.4	71	
469	■	Cox Broadcasting	56.4	35.0	93	
471	■	Parker-Hannifin	56.0	11.5	84	
472	■	Marine Midland Bks	55.9	40.3	136	
473	■	Jewel Companies	55.9	10.3	102	
474	■	Shearson Loeb Rhoades	55.8	178.0	55	
475	■	Wal-Mart Stores	55.7	35.3	74	
476	■	Indianapolis Pwr & Lt	55.6	6.1	98	
477	■	Super Valu Stores	55.6	22.6	89	
478	■	Wheelabrator-Frye	55.3	29.6	69	
479	■	National Can	55.0	18.2	91	
480	330	Koppers	55.0	–36.4	138	
481	■	Waste Management	54.9	49.4	107	
482	■	Eastern Gas & Fuel	54.8	14.3	111	
483	■	Data General	54.7	9.8	86	
484	469	Twentieth Century-Fox	54.6	–4.8	78	
485	■	Fairchild Industries	54.5	36.4	97	
486	276	Owens-Corning Fbrgls	54.3	–50.3	161	
487	■	Alleghany	54.3	12.3	441	
488	■	Northwest Energy	54.1	31.0	107	
489	■	Pogo Producing	54.0	29.2	139	
490	■	Zale	54.0	25.6	64	
491	■	SCM	53.9	13.7	93	
492	■	Baldwin-United	53.7	4.5	359	
493	282	Clark Equipment	53.5	–49.6	75	
494	■	Bally Manufacturing	53.5	15.4	96	
495	■	Valley Natl Bk Ariz	53.2	14.4	83	
496	■	Iowa Beef Processors	53.2	24.4	70	
497	392	Colonial Penn Group	53.1	–25.9	171	
498	447	Ideal Basic Inds	52.8	–13.4	97	
499	■	Anderson, Clayton	52.7	8.1	61	
500	488	Consolidated Papers	52.6	–4.0	79	

■ Not on 500 list in 1979.

Standard Chartered
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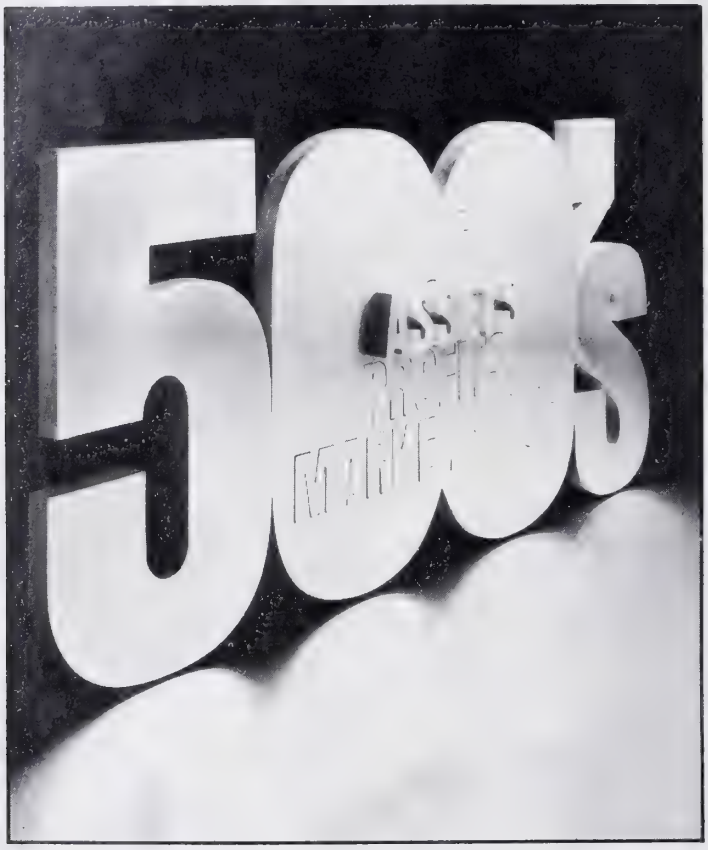
A new partnership
that's opening doors
all over the world.
Travellers all over the world can now benefit from the combined strength of the Standard Chartered Bank and Visa, two great names who have joined forces to offer travellers' cheques you can purchase and use with confidence.
Successful partnerships come naturally to Standard Chartered, the London-based international bank formed by the merger of The Standard Bank and The Chartered Bank. With more than 1500 offices in some sixty countries around the world, Standard Chartered is Britain's largest independent international bank.
Standard Chartered/Visa Travellers' Cheques are easy to buy, honoured the world over and readily refundable through a worldwide network of refund locations. Wherever you see the Standard Chartered/Visa sign, you know you're travelling with the right company.
VISA
Standard Chartered
Visa Travellers Cheques
A great partnership for travellers to bank on.

The 500 companies below had combined assets of over $3 trillion, and the smallest company on the list had over $1.5 billion. But it's not how much in assets you have, it's why—and what you do with them.



If there is any point the Forbes 500s make crystal clear, it is that a single measure of a company is not enough. Total assets of the 500 companies listed here, for example, came to $3,168,863,578,000, up 11.6% from 1979. Those $3 trillion-plus assets helped generate a 16.2% average increase in revenues for the same companies. Profits? A mere 4.3% average increase. Moral: It's not how much in assets you have, but what kind of return you get on them.

Rank 1980	Rank 1979	Company	Assets ($000,000)	% change over 1979
1	1	**American Tel & Tel**	125,451	10.3
2	3	**Citicorp**	114,920	8.0
3	2	**BankAmerica**	111,617	3.0
4	4	**Chase Manhattan**	76,190	17.7
5	5	**Fed Natl Mortgage**	58,470	14.0

Take the banks. They almost always dominate the assets list; all but two of the top ten are banks or financial institutions. But in assets growth, the banks are all over the lot, a reflection of their differing strategies—particularly their varying degrees of aggressiveness in money market investments.

A good example can be found in the two biggest banks of all. Citicorp passed BankAmerica in total assets to become not only the biggest bank in America but also the second-largest U.S. corporation. That was achieved on moderate growth of 8% (compared with 22% in 1979). Assets of Citibank's West Coast rival barely grew at all—just 3%—the result of a deliberate decision by BankAmerica to concentrate on earnings. The results in profits *(see p. 228)* reflected strategy. BankAmerica earned $144 lion *more* than Citicorp in 1980.

The biggest jumps in assets, how were by acquisition-minded indust Wheelabrator-Frye, nearly triplin $1.9 billion with the Pullman acq tion, made the Assets 500 list for first time. Revlon, rapidly expan into health care, grew by 53.7%. Shearson Loeb Rho nearly doubled, coming from nowhere to 364 on the list.

As for asset losses, some were due to forced divestitures pressures facing companies in troubled industries. El Paso big pipeline operator, had to write down $365 million o Algerian LNG project.

But often asset losses were deliberate strategy decisions International's assets dropped 37.9%—and off the list— result of swapping its Canadian Utilities holdings for million of its own shares, which it retired. And Penn Cent assets shrank 49.4% following its $2.1 billion settlement the U.S. government when it finally took off its books rail assets transferred to Conrail in 1976—but its stockhol equity more than doubled.

Mixing business with pleasure is Centel's growth formula for the 80's.

Centel is reaching into two exciting new fields with unlimited growth potential.

Business communication systems.

And cable television.

That means we're generating substantial new revenues and earnings around the clock by supplying our markets with diverse telecommunications services during the day and entertainment at night.

You might say we're mixing business with pleasure. And it's already paying off in a big way.

For example, the recent acquisitions of Fisk Telephone and Livingston Communications make Centel #1 in sales of business phone systems in the nation. So, we're firmly positioned in a billion dollar market that promises to be one of the fastest growing areas of communications throughout the decade.

Cable TV is also exploding into the 80's. And we're growing right along with it by adding new cable television franchises and acquiring operating systems in expanding communities.

With a cable TV and master antenna base expanding from zero to 100,000 customers in two years, Centel has become one of the nation's major operators.

Revenues from sales of our cable TV and business communications systems have grown to over $100 million a year.

That's more than 10% of our revenues and sales from businesses we weren't even in three years ago.

Systems for business communications. Cable television. And America's fifth largest telephone company with service areas concentrated in the Sunbelt. That's a good, solid steady growth base to build on in the 80's.

CENTEL

CENTRAL TELEPHONE & UTILITIES

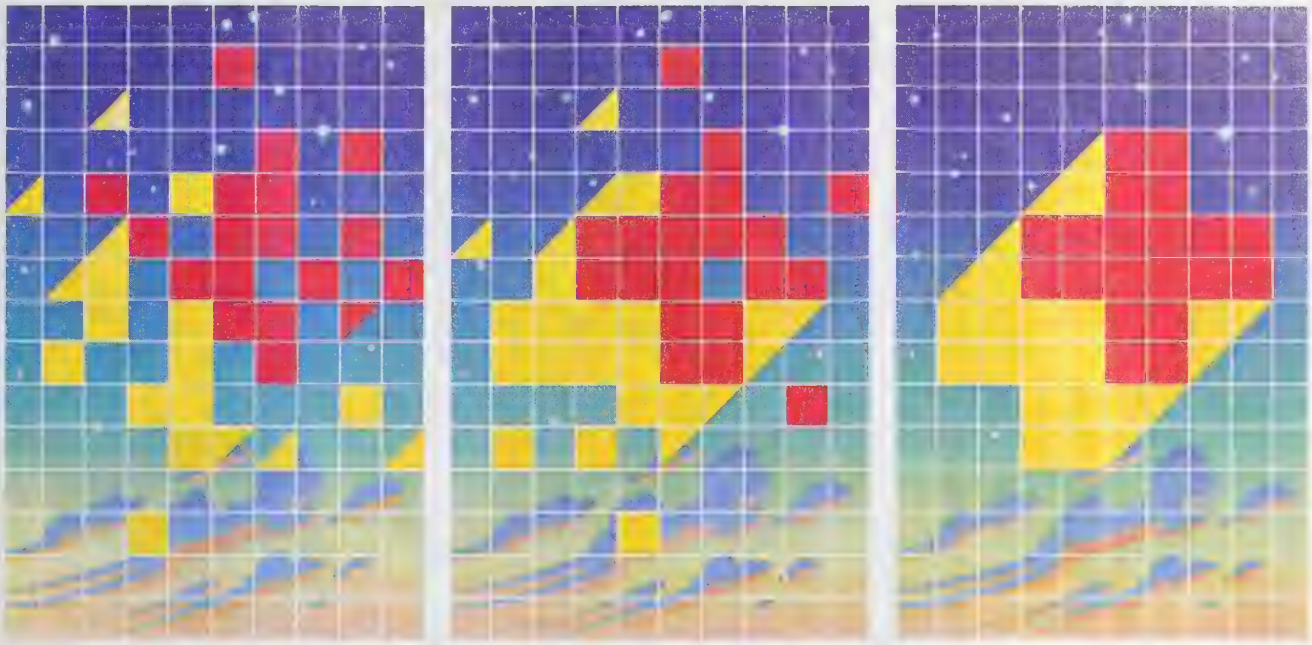
COME GROW WITH US.

THE FORBES ASSETS 500

Rank 1980	Rank 1979	Company	Assets ($000,000)	% change over 1979
6	6	Exxon	56,577	14.3
7	7	Mfrs Hanover	55,522	16.5
8	8	J P Morgan	51,991	19.6
9	10	Continental Illinois	42,089	17.6
10	9	Chemical New York	41,342	5.0
11	13	Aetna Life & Cas	35,753	18.3
12	11	General Motors	34,455	7.6
13	12	Bankers Trust N Y	34,202	10.5
14	16	Mobil	32,705	18.9
15	15	Western Bancorp	32,110	8.2
16	14	First Chicago	28,699	–4.9
17	18	Intl Tel & Tel	28,378	8.4
18	17	Sears Roebuck	28,169	6.0
19	19	Security Pacific	27,794	11.5
20	20	IBM	26,703	8.9
21	22	Texaco	26,430	15.0
22	21	Ford Motor	24,335	3.5
23	23	Wells Fargo	23,638	14.8
24	26	Standard Oil Calif	22,140	22.4
25	24	Travelers	21,638	12.9
26	28	Standard Oil Ind	20,167	17.6
27	25	General Tel & Elec	19,720	7.1
28	29	American Express	19,709	15.2
29	32	Crocker National	19,063	18.1
30	27	Gulf Oil	18,638	8.0
31	31	General Electric	18,511	11.2
32	30	Irving Bank	18,090	8.3
33	33	Shell Oil	17,615	9.2
34	34	Marine Midland Bks	17,480	11.1
35	35	Connecticut General	16,742	12.0
36	36	Atlantic Richfield	16,605	20.0
37	38	Mellon National	16,156	19.6
38	37	First Natl Boston	15,948	15.9
39	39	Northwest Bancorp	14,395	15.9
40	42	Tenneco	13,853	19.1
41	43	First Intl Bshs	13,781	19.8
42	41	First Bank System	13,475	11.2
43	46	Merrill Lynch	13,246	25.5
44	40	H F Ahmanson	13,110	8.0
45	56	Standard Oil Ohio	12,080	31.2
46	45	Republic of Texas	11,867	9.9
47	44	United States Steel	11,748	6.5
48	49	Dow Chemical	11,538	12.5
49	47	Southern Company	11,467	8.7
50	48	Pacific Gas & Elec	11,295	9.5
51	55	Texas Commerce Bshs	11,287	21.9
52	52	First City Bancorp	11,275	18.6
53	57	Commonwlth Edison	11,135	11.2
54	54	Conoco	11,036	18.5
55	71	Sun Company	10,955	46.8
56	64	American Elec Power	10,952	24.7
57	51	NBD Bancorp	10,869	14.3
58	59	INA	10,604	18.0
59	58	Bank of New York	10,423	15.9
60	53	Gt Western Financial	10,253	8.4
61	65	Phillips Petroleum	9,844	15.6
62	50	First Charter Finl	9,676	1.3
63	63	Union Carbide	9,659	9.7
64	66	Seafirst	9,588	14.1
65	61	E I du Pont	9,560	6.9
66	62	Loews	9,125	3.2
67	68	Transamerica	8,887	11.3
68	70	Eastman Kodak	8,747	15.9
69	69	Lincoln National	8,470	9.0
70	67	Beneficial Corp	8,300	1.0
71	90	Getty Oil	8,267	37.0
72	72	Continental Corp	8,216	10.2
73	75	So Calif Edison	7,734	10.8
74	76	City Investing	7,689	12.0
75	■	CSX	7,523	6.2
76	73	Consolidated Edison	7,460	4.6
77	87	Philip Morris	7,366	15.5
78	86	R J Reynolds Inds	7,355	14.5
79	81	Xerox	7,349	12.1
80	83	Imperial Corp of Am	7,347	12.7
81	84	Middle South Utils	7,335	12.8
82	85	United Technologies	7,326	14.0
83	82	American General	7,293	11.4
84	88	NCNB	7,176	12.7
85	92	RCA	7,146	19.3
86	74	Harris Bankcorp	6,905	–2.9
87	97	American Intl Group	6,900	20.5
88	79	Household Finance	6,841	2.8
89	77	Westinghouse Elec	6,813	–0.1
90	91	Union Oil California	6,772	12.6
91	89	Pub Svc Elec & Gas	6,725	10.2
92	104	Occidental Petroleum	6,630	19.2
93	80	Chrysler	6,618	–0.5
94	78	Control Data	6,568	–3.2
95	98	Procter & Gamble	6,553	15.7
96	95	Texas Utilities	6,553	12.6
97	93	Va Electric & Power	6,491	8.9
98	142	Republic New York	6,447	46.2
99	100	Duke Power	6,328	12.5
100	96	Engelhard Minerals	6,301	8.6
101	101	Consumers Power	6,277	12.5
102	103	Pittsburgh National	6,225	11.9
103	94	Philadelphia Natl	6,210	5.0
104	121	Union Pacific	6,195	21.8
105	99	K mart	6,102	8.2
106	106	Caterpillar Tractor	6,098	12.9
107	132	First Boston	6,021	23.1
108	131	Boeing	5,931	21.1
109	130	Amerada Hess	5,895	20.3
110	122	J C Penney	5,863	15.5
111	124	Southeast Banking	5,854	16.4
112	111	Northern Trust	5,849	9.2
113	112	Avco	5,844	10.2
114	113	Intl Harvester	5,843	11.4
115	105	Monsanto	5,796	4.6
116	108	Michigan National	5,757	
117	118	Detroit Edison	5,742	1
118	115	Valley Natl Bk Ariz	5,733	1
119	102	Walter E Heller Intl	5,728	
120	114	Phila Electric	5,703	
121	123	DETROITBANK	5,668	1
122	120	Wachovia	5,654	1
123	107	AmeriTrust	5,602	
124	160	Golden West Finl	5,579	4
125	60	First Pennsylvania	5,497	–3
126	133	Florida Power & Lt	5,492	1
127	128	National City	5,490	1
128	137	Mercantile Texas	5,460	1
129	117	Gulf & Western Inds	5,417	
130	110	Goodyear	5,368	–
131	135	Cities Service	5,358	1
132	125	Southern Pacific	5,330	
133	180	Continental Group	5,321	1
134	156	AMAX	5,276	3
135	148	Burlington Northern	5,267	2
136	143	Schlumberger	5,242	1
137	129	Weyerhaeuser	5,239	
138	140	Rainier Bancorp	5,222	1
139	116	Bethlehem Steel	5,207	
140	150	Deere	5,202	2
141	134	International Paper	5,197	
142	136	Alcoa	5,188	1
143	178	Teledyne	5,146	4
144	138	Minn Mining & Mfg	5,046	1
145	146	Marathon Oil	5,043	1
146	127	General Public Utils	5,043	
147	126	BancOhio	5,002	–4
148	141	U S Bancorp	4,879	1
149	139	Manufacturers Natl	4,769	
150	158	Halliburton	4,724	2
151	196	E F Hutton Group	4,707	4
152	■	Dart & Kraft	4,650	
153	145	Mercantile Bancorp	4,646	
154	149	Allied Corp	4,538	
155	119	First Wisconsin	4,524	–1
156	152	Georgia-Pacific	4,512	
157	165	Houston Industries	4,433	1
158	151	Rockwell Intl	4,431	
159	175	Barnett Banks Fla	4,431	2
160	147	NLT	4,414	
161	144	Girard	4,386	
162	157	Amer Natl Resources	4,383	1
163	169	W R Grace	4,365	1
164	154	Citizens & Sthrn Ga	4,341	
165	161	Santa Fe Industries	4,330	1
166	166	Pa Power & Light	4,300	1
167	155	Gibraltar Financial	4,295	
168	159	First Union Bancorp	4,271	
169	170	Sperry	4,262	1
170	153	St Paul Companies	4,252	

■ Not on 500 list in 1979

HEALTHY INDICATORS



How do you measure the health of an international health care services company? By its sustained growth, its aggressive market development, and its operating results.

As owners and operators of hospitals and health care support services in more than 500 communities worldwide, AMI continues to generate exceptional growth. Increased utilization of existing facilities, active programs of hospital development and construction, and addition of new services and technologies all contribute to our strong financial position.

AMI now packages many advanced services and technologies for other hospitals needing sophisticated health care support. Included are mobile diagnostic services, non-invasive test procedures and computer-aided hospital design. This diversification within a growing industry is a key to our strategy of marketing cost-effective, quality health care to communities throughout the world.

We believe that all of these factors are healthy indicators of sound management and our leadership role in a growing health care industry. And that's not only healthy for us. It's healthy for our investors, too.

AMI®
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For more indications of our growth, contact our Director of Communications, American Medical International, 414 North Camden Drive, Beverly Hills, CA 90210 (213) 278-6200

Lost Wax:

Jet engine blades from a 6,000 year-old technique.

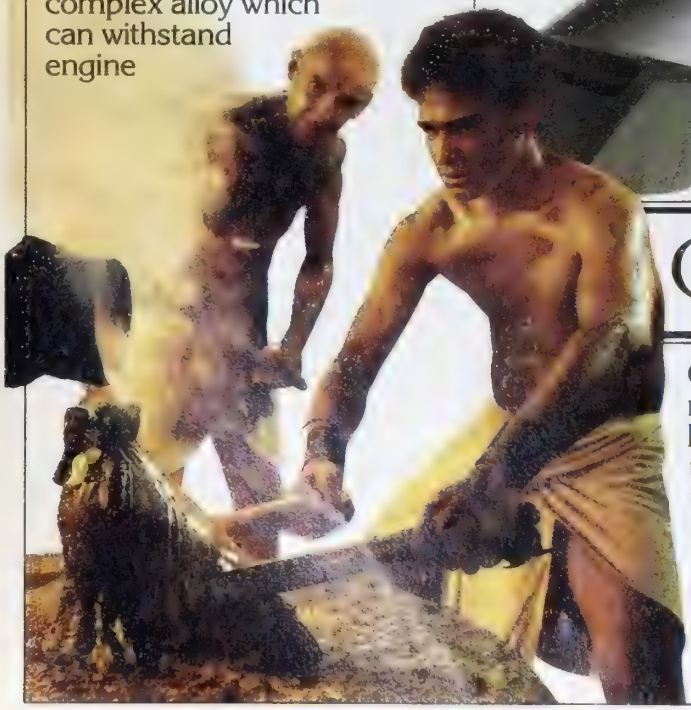
Long before the Pyramids, ancient craftsmen used a method called the "lost wax" process to produce bronze, silver and gold objects of astonishing detail.

Very simply, a wax carving was covered with clay and baked. The wax was melted, or "lost," leaving a perfect mold.

Only the materials have changed.

At TRW we still use this timeless technique to cast computer-precise turbine engine blades for jet aircraft.

Today our metal is a complex alloy which can withstand engine temperatures up to 2,500°F while spinning at 8,000 RPM.



Creating single crystals.

Our metallurgists have perfected unique new ways to control the metal's crystalline structure.

Normally metal hardens into multiple crystals as it cools. But tomorrow's new fuel-efficient jet engines demand even tougher blades.

So we perfected a process that forces the metal to reject all but one crystal as it hardens in the mold, forming finished blades from one incredibly strong single crystal of metal.

But the process still begins with a 6,000-year-old idea.

Tomorrow is taking shape at

A COMPANY CALLED TRW

©TRW Inc., 1981

nk 1979	Company	Assets ($000,000)	% change over 1979
171	U S Fidelity & Gty	4,247	15.4
176	Carolina Pwr & Lt	4,242	16.3
172	Central & South West	4,220	14.9
162	United Telecom	4,206	8.6
182	Southwest Bancshs	4,158	16.9
167	Coastal Corp	4,113	8.9
168	Maryland National	4,063	8.9
164	UAL	4,041	4.6
163	LTV	4,030	4.3
174	Beatrice Foods	3,980	8.5
188	Ohio Edison	3,980	15.5
173	American Brands	3,971	8.2
214	First Natl State Bcp	3,919	26.0
185	Long Island Lighting	3,918	13.2
194	McDonnell Douglas	3,900	15.4
184	Crum & Forster	3,896	10.7
195	Honeywell	3,893	16.6
177	Columbia Gas Sys	3,862	6.5
193	Burroughs	3,855	13.8
187	BanCal Tri-State	3,852	11.7
183	Niagara Mohawk Pwr	3,809	7.9
200	Armco	3,805	16.7
179	IC Industries	3,693	2.1
257	General Re	3,655	35.0
205	Northeast Utilities	3,628	12.8
199	California First Bnk	3,621	10.9
189	First Security	3,601	5.1
202	USLIFE	3,582	11.0
198	Federated Dept Stores	3,576	8.5
191	Centran	3,565	4.4
211	Pacific Pwr & Lt	3,559	13.8
208	Union Electric	3,552	12.1
197	McDermott	3,551	7.6
265	Paine Webber	3,500	31.0
249	InterNorth	3,486	25.1
280	Donaldson, Lufkin	3,474	37.2
256	Superior Oil	3,461	27.2
210	Shawmut	3,456	10.0
204	United Va Bankshares	3,454	7.4
203	Industrial National	3,452	7.0
209	National Steel	3,447	9.1
207	Lincoln First Banks	3,435	8.0
218	Society	3,431	13.7
231	PepsiCo	3,418	18.4
224	Coca-Cola	3,406	15.9
233	Midlantic Banks	3,404	18.2
226	Texas American Bshs	3,371	15.1
229	NCR	3,366	15.4
264	Pan Am World Airways	3,366	25.7
216	Pfizer	3,364	10.3
213	Ashland Oil	3,358	7.9
225	Alleghany	3,354	14.2
234	Johnson & Johnson	3,343	16.3
217	Champion Intl	3,340	9.8
215	Safeway Stores	3,339	7.7

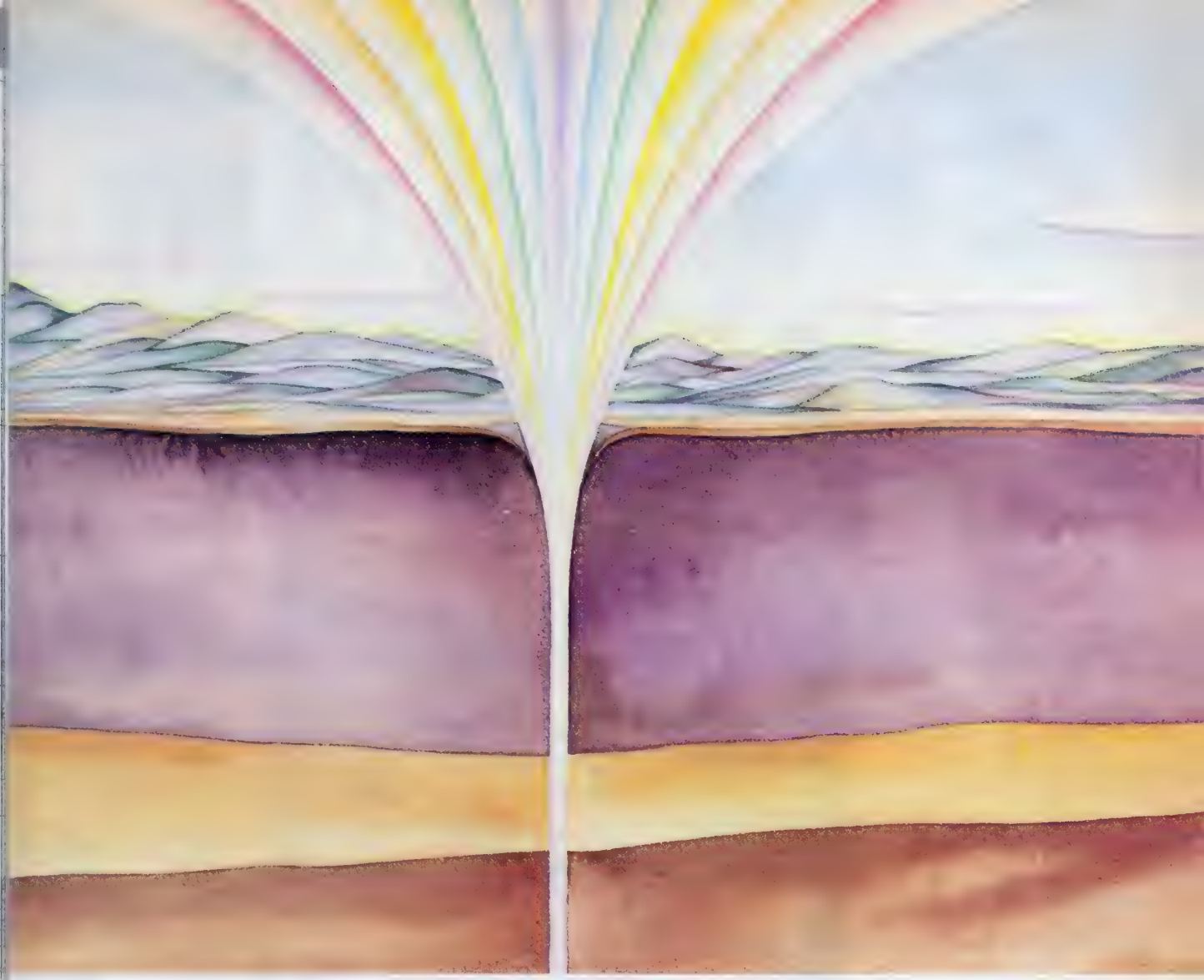
Rank 1980	1979	Company	Assets ($000,000)	% change over 1979
226	242	Fidelcor	3,316	16.9
227	201	Texas Eastern	3,315	2.4
228	236	Sun Banks of Florida	3,312	15.3
229	219	Peoples Energy	3,288	9.5
230	212	First Union	3,282	5.2
231	206	American Airlines	3,278	3.0
232	239	Litton Industries	3,264	14.4
233	311	Fidelity Union Bncp	3,259	39.2
234	250	Kennecott	3,231	16.0
235	271	Panhandle Eastern	3,228	22.0
236	223	Continental Tel	3,208	8.9
237	241	BayBanks	3,207	12.6
238	222	Kaiser Alum & Chem	3,197	7.4
239	245	Trans World	3,185	13.5
240	251	CBT	3,175	14.9
241	227	F W Woolworth	3,172	8.4
242	232	Southern Railway	3,165	9.6
243	260	Riggs Natl Bank	3,149	17.2
244	220	First Atlanta	3,147	4.9
245	186	Firestone	3,119	–9.8
246	237	Trust Co of Georgia	3,112	8.9
247	240	Signal Companies	3,101	8.8
248	228	Reynolds Metals	3,097	6.0
249	263	Cleveland Elec Illum	3,094	15.5
250	238	Baltimore Gas & Elec	3,073	7.6
251	230	Owens-Illinois	3,066	5.4
252	253	Transco Companies	3,049	11.1
253	269	Washington National	3,043	14.9
254	252	Republic Steel	3,017	9.7
255	246	Allegheny Power	3,010	7.4
256	275	State Street Boston	3,009	15.8
257	181	El Paso	2,991	–16.2
258	278	General Foods	2,978	16.1
259	262	Bache Group	2,966	10.6
260	255	Inland Steel	2,958	8.5
261	235	Warner-Lambert	2,954	2.8
262	247	Jefferson-Pilot	2,935	5.2
263	321	Raytheon	2,929	27.5
264	290	Arizona Public Serv	2,928	18.3
265	296	Gulf States Utils	2,926	19.9
266	317	Bendix	2,924	26.5
267	244	Norfolk & Western Ry	2,922	3.6
268	243	American Cyanamid	2,917	3.2
269	258	First Tennessee Natl	2,916	8.0
270	286	Dresser Industries	2,897	15.7
271	248	American Natl Ins	2,895	3.9
272	295	New England Merch	2,890	17.9
273	274	Merck	2,866	9.6
274	267	Equimark	2,863	7.6
275	326	Allied Bancshares	2,855	26.3
276	273	TRW	2,855	9.0
277	309	Fidelity Financial	2,853	21.7
278	319	Nationwide	2,832	22.9
279	279	Huntington Bshs	2,831	10.9
280	270	PPG Industries	2,826	6.7

Rank 1980	1979	Company	Assets ($000,000)	% change over 1979
281	282	Banc One	2,824	11.9
282	261	American Can	2,822	5.2
283	294	Eastern Air Lines	2,816	14.8
284	310	Public Service Ind	2,809	19.9
285	312	Kerr-McGee	2,807	20.0
286	299	Diamond Shamrock	2,793	15.5
287	328	Kemper	2,777	23.9
288	268	Commerce Bancshrs	2,765	4.2
289	372	Tiger International	2,758	40.4
290	276	Hartford Natl	2,753	6.3
291	289	Provident National	2,752	10.6
292	288	Chubb	2,746	10.3
293	306	United Banks of Colo	2,740	15.6
294	266	AmSouth Bancorp	2,739	2.5
295	272	No States Power	2,735	4.4
296	277	Consol Natural Gas	2,735	6.0
297	300	Missouri Pacific	2,730	13.2
298	109	Penn Central	2,727	–49.4
299	315	American Security	2,714	17.1
300	284	Virginia Natl Bshs	2,704	7.3
301	259	Reliance Group	2,681	–0.5
302	318	Boise Cascade	2,679	16.0
303	396	Digital Equipment	2,666	43.1
304	301	Pacific Lighting	2,662	10.7
305	254	American Fletcher	2,657	–2.7
306	308	McDonald's	2,643	12.3
307	293	Borden	2,643	7.3
308	325	St Regis Paper	2,642	16.9
309	305	Celanese	2,634	10.7
310	291	Banco Popular PR	2,630	6.4
311	281	United Jersey Banks	2,628	4.1
312	285	Safeco	2,624	4.7
313	304	Norton Simon	2,620	9.7
314	297	FMC	2,617	7.5
315	336	Eli Lilly	2,607	19.7
316	292	Capital Holding	2,605	5.6
317	323	Pennzoil	2,592	13.1
318	354	Baldwin-United	2,591	25.1
319	298	Colgate-Palmolive	2,578	6.1
320	314	No Indiana Pub Svc	2,539	9.5
321	373	Key Banks	2,527	29.1
322	340	Ingersoll-Rand	2,527	18.7
323	360	Dominion Bankshares	2,526	25.5
324	287	First Natl Bancorp	2,499	0.0
325	324	MCA	2,477	8.8
326	338	Florida Natl Banks	2,468	15.6
327	332	Illinois Power	2,467	11.4
328	379	Anheuser-Busch Cos	2,450	27.2
329	361	Marshall & Ilsley	2,446	21.5
330	331	Duquesne Light	2,443	9.9
331	343	Lockheed	2,443	15.6
332	365	General Dynamics	2,436	21.5
333	322	Financial General	2,427	5.8
334	385	Texas Instruments	2,414	26.5
335	327	GATX	2,413	6.9

on 500 list in 1979

Rank 1980	Rank 1979	Company	Assets ($000,000)	% change over 1979
336	316	Bank of Virginia	2,403	3.7
337	444	First American Bank	2,400	40.1
338	330	Potomac Elec Power	2,397	7.6
339	351	Combustion Engnrng	2,393	14.9
340	362	Williams Companies	2,380	18.3
341	339	Indiana National	2,378	11.6
342	398	Flagship Banks	2,374	28.5
343	337	Crown Zellerbach	2,373	9.8
344	346	Time Inc	2,371	12.7
345	347	American Home Prod	2,370	13.4
346	302	Financial Federation	2,362	–1.5
347	350	First Maryland Bncp	2,358	12.9
348	341	Provident Life & Acc	2,346	10.4
349	368	Bancorp Hawaii	2,343	17.9
350	313	Johns-Manville	2,338	0.6
351	■	City Federal S & L	2,337	22.0
352	388	Hewlett-Packard	2,337	23.0
353	355	CPC International	2,328	12.6
354	345	Kimberly-Clark	2,326	10.5
355	392	Murphy Oil	2,308	23.0
356	307	Eaton	2,302	–2.3
357	320	First & Merchants	2,301	0.2
358	335	CBS	2,301	5.6
359	364	United Bank Corp NY	2,274	13.3
360	426	First Oklahoma Bncp	2,273	28.5
361	423	Merchants National	2,272	27.5
362	333	Northwest Industries	2,272	3.4
363	357	PennCorp Financial	2,268	10.8
364	■	Shearson Loeb Rhoades	2,268	96.4
365	342	Central Bancorp	2,264	6.7
366	348	Consolidated Foods	2,263	8.3
367	369	Cincinnati G & E	2,262	14.2
368	495	Revlon	2,260	53.7
369	344	May Dept Stores	2,259	7.2
370	334	Ralston Purina	2,247	2.9
371	383	Florida Power	2,244	17.2
372	356	Jim Walter	2,226	8.6
373	363	Public Service Colo	2,216	10.2
374	352	B F Goodrich	2,216	6.4
375	376	Liberty Natl Ins Hold	2,214	13.7
376	381	Bristol-Myers	2,209	15.0
377	377	Gulf United	2,189	13.4
378	353	Textron	2,187	5.2
379	390	ENSERCH	2,187	16.3
380	349	First Kentucky Natl	2,167	3.7
381	400	Dayton-Hudson	2,155	17.6
382	395	Cullen/Frost Bankers	2,139	14.5
383	367	Tenn Valley Bancorp	2,139	7.0
384	416	So Natural Resources	2,134	19.0
385	384	New England Electric	2,120	10.9
386	375	Burlington Inds	2,117	8.3
387	366	Phelps Dodge	2,112	5.6
388	387	Motorola	2,112	11.0
389	393	Stauffer Chemical	2,112	12.5
390	412	Kaneb Services	2,101	15.9
391	374	Utah Power & Light	2,097	7.3
392	■	Entex	2,092	63.6
393	370	United States Trust	2,074	5.2
394	391	Boatmen's Bancshs	2,073	10.3
395	425	Martin Marietta	2,069	16.7
396	358	Equitable Bancorp	2,066	1.3
397	429	Central Bancshares	2,064	17.4
398	439	Abbott Laboratories	2,063	19.3
399	407	Portland Genl Elec	2,062	13.2
400	411	First Florida Banks	2,055	13.2
401	371	ASARCO	2,045	3.8
402	420	Delta Air Lines	2,043	14.2
403	382	First Natl Charter	2,035	6.1
404	445	NICOR	2,035	19.0
405	378	Arizona Bank	2,031	5.4
406	402	Wisconsin Elec Pwr	2,030	10.9
407	430	First United Bancorp	2,018	14.9
408	403	Scott Paper	2,014	10.1
409	399	General Mills	2,012	9.7
410	460	Texasgulf	2,010	22.0
411	424	Kroger	1,998	12.5
412	405	Citizens Fidelity	1,993	9.1
413	422	San Diego Gas & Elec	1,986	11.4
414	468	Schering-Plough	1,984	24.6
415	414	Pillsbury	1,984	9.9
416	404	First Alabama Bshs	1,973	7.9
417	443	Marine	1,971	14.9
418	394	TRANSOHIO Financial	1,969	5.1
419	464	H J Heinz	1,954	20.3
420	433	United Missouri Bshs	1,953	11.3
421	438	Old Kent Financial	1,951	12.8
422	455	Sumitomo Bank Cal	1,949	17.2
423	448	Utd Energy Resources	1,945	14.9
424	434	Natl Central Financl	1,937	10.5
425	462	Amer Savings & Loan	1,936	18.6
426	431	Dana	1,935	10.2
427	■	Wheelabrator-Frye	1,931	196.9
428	418	American B & T Pa	1,930	7.7
429	446	Emerson Electric	1,929	13.7
430	■	Gelco	1,918	69.8
431	428	No Calif Savings	1,912	8.7
432	435	First National Cinc	1,912	9.1
433	436	Central Fidelity Bks	1,909	9.0
434	417	Squibb	1,906	6.3
435	408	Greyhound	1,905	4.7
436	458	Western Financial	1,904	15.3
437	410	Borg-Warner	1,902	4.7
438	451	Idaho First Natl Bk	1,899	13.8
439	442	Fin Cp Santa Barbara	1,898	9.9
440	413	Atlantic Bancorp	1,897	5.1
441	465	Continental Bank	1,893	16.9
442	454	Houston Natural Gas	1,891	13.7
443	427	Hercules	1,890	7.3
444	453	Central Tel & Utils	1,890	13.5
445	406	Third National	1,885	3.4
446	401	First American	1,885	
447	437	N Y State Elec & Gas	1,872	
448	421	Dean Witter Reynolds	1,870	
449	461	Mead	1,867	
450	397	Southern Bancorp Ala	1,861	
451	469	Broadview Financial	1,858	
452	409	First Empire State	1,856	
453	447	First Hawaiian	1,856	
454	303	Esmark	1,854	
455	476	Intl Minerals & Chem	1,849	
456	415	Genl Tire & Rubber	1,806	
457	459	So Carolina E & G	1,802	
458	■	Natomas	1,798	
459	449	Northwestern Finl	1,790	
460	456	Boston Edison	1,784	
461	380	McGraw-Edison	1,783	
462	432	Western Union	1,782	
463	■	Fin Corp of America	1,779	
464	466	So New England Tel	1,777	
465	471	NL Industries	1,774	
466	473	Warner Commun	1,769	
467	■	St Joe Minerals	1,765	
468	457	Oklahoma Gas & Elec	1,753	
469	■	Air Prods & Chems	1,751	
470	440	Charter	1,746	
471	441	Whitney Holding	1,744	
472	463	Equitable of Iowa	1,743	
473	500	Liberty National	1,740	
474	■	Times Mirror	1,735	
475	■	Old Stone	1,734	
476	474	Hospital Trust	1,720	
477	479	Gillette	1,709	
478	■	Fluor	1,705	
479	496	Toledo Edison	1,701	
480	493	Dayton Power & Light	1,685	
481	■	Holiday Inns	1,680	
482	452	National Distillers	1,678	
483	■	Upjohn	1,670	
484	480	Deposit Guaranty	1,669	
485	■	Union Camp	1,652	
486	482	Zions Utah Bancorp	1,652	
487	492	Carter Hawley Hale	1,651	
488	477	Ryder System	1,646	
489	■	Campbell Soup	1,628	
490	487	Union Commerce	1,625	
491	489	Allied Stores	1,620	
492	389	Indust Valley Bank	1,619	
493	484	Cooper Industries	1,613	
494	■	Hospital Corp of Am	1,610	
495	467	Gould	1,609	
496	■	Standard Brands	1,608	
497	494	South Carolina Natl	1,603	
498	■	Wickes Companies	1,600	
499	490	Carnation	1,591	
500	475	Kidde	1,588	

■ Not on 500 list in 1979



OIL ALONE WON'T SOLVE AMERICA'S ENERGY PROBLEMS.

America has more energy than Saudi Arabia.

In fact, American oil shale reserves alone probably contain more oil than the entire Middle East. Unfortunately, it's still easier to buy from foreign suppliers — even at today's prices.

But as foreign oil becomes increasingly scarce and expensive, we're going to have to replace it with new kinds of energy.

So MAPCO is working on many different kinds of energy technology — oil, gas, coal, uranium, geothermal, even fertilizers for farms.

The energy business of the future will be an exciting and rewarding business, as long as we keep using our most important resource...

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The market raced far ahead of both the U.S. economy and U.S. business last year. Could it be trying to tell us something?

TOTAL MARKET VALUE of the companies in this FORBES 500 list increased by 31.6% last year—the biggest gain since the 500s began in 1969. That growth far outstripped the growth of the 500 companies in assets (8.4%), sales (13.3%) and net profits (5.1%).

Does the market know something? The *second* largest annual market value gain was in 1975, when the economy was emerging from recession. This year, of course, conventional wisdom is that the economy is in delicate health. FORBES has been saying it's stronger than many forecasters think. Perhaps the market is saying that, too.

Those market value gains add up to an awesome figure in dollars: Altogether, the companies in this list were valued at $1.037 trillion, $249 billion more than last year's list. The top 20 alone gained nearly $100 billion. Wall Street's ebullience, in fact, resulted in 58 new companies joining the Market list this year—the main reason, in turn, that the total universe of FORBES 500s companies jumped to 818 from 801 last year.

The big gainers? No contest: It was last year's glamour industry—oil. Standard Oil of Indiana nearly doubled in market value, adding $11.6 billion. Exxon g $10.6 billion, Schlumberger $10.4 b Shell $9.6 billion. Top to bottom, c oil-service companies rolled up big Little ($74.3 million, sales) Tom I Inc., a drilling firm from Midland, jumped 376%. The Western Co. of America, a $457.5 million (sale Worth offshore driller and oilfiel vicer, increased by 237%. But the only reliable law i market place is the law of change—energy stocks have hard put to hold their gains thus far this year.

Rank 1980	Rank 1979	Company	Market value ($000,000)	% change over 1979
1	1	**IBM**	39,626	5.5
2	2	**American Tel & Tel**	36,137	–1.2
3	3	**Exxon**	34,837	44.0
4	6	**Standard Oil Ind**	23,352	98.4
5	5	**Schlumberger**	22,347	87.5

Defense and some high-tech companies were other big ers. Litton Industries' market value more than doubled, dyne's increased 65%, Wang Laboratories' nearly tripled.

But you could still have lost your shirt if you'd tried. c 500, only 67 lost market value in 1980. But some of losses were heavy. General Motors lost $1.1 billion; Roebuck and Burroughs nearly $1 billion each.

With the Dow bumping along around 1000, is the mark high? Compare the total market value of the 500 compa $1 trillion—with their $2.6 trillion in assets. That means the stock market bought you $2.60 worth of assets.

THE BANK THAT STARTED A REVOLUTION IN FLORIDA CAN HELP YOU START ONE.

In the early 1970's, the people at Barnett were the first to begin the move to a statewide banking system.

Today, with over 140 offices and over one million retail customers, Barnett's revolution has produced a leading banking force in the Southeast.

A force that's available to help keep the business climate alive and vital.

With the resources of a $4 billion banking system we can connect you with long-and short-term loans. Construction Loans. Cash Management. Leasing. And International Services.

In short, whatever business service you need, there's a good chance that Barnett can help finance your revolution.

After all, we'd like to take advantage of every business opportunity. Just like you do.

Barnett Bank

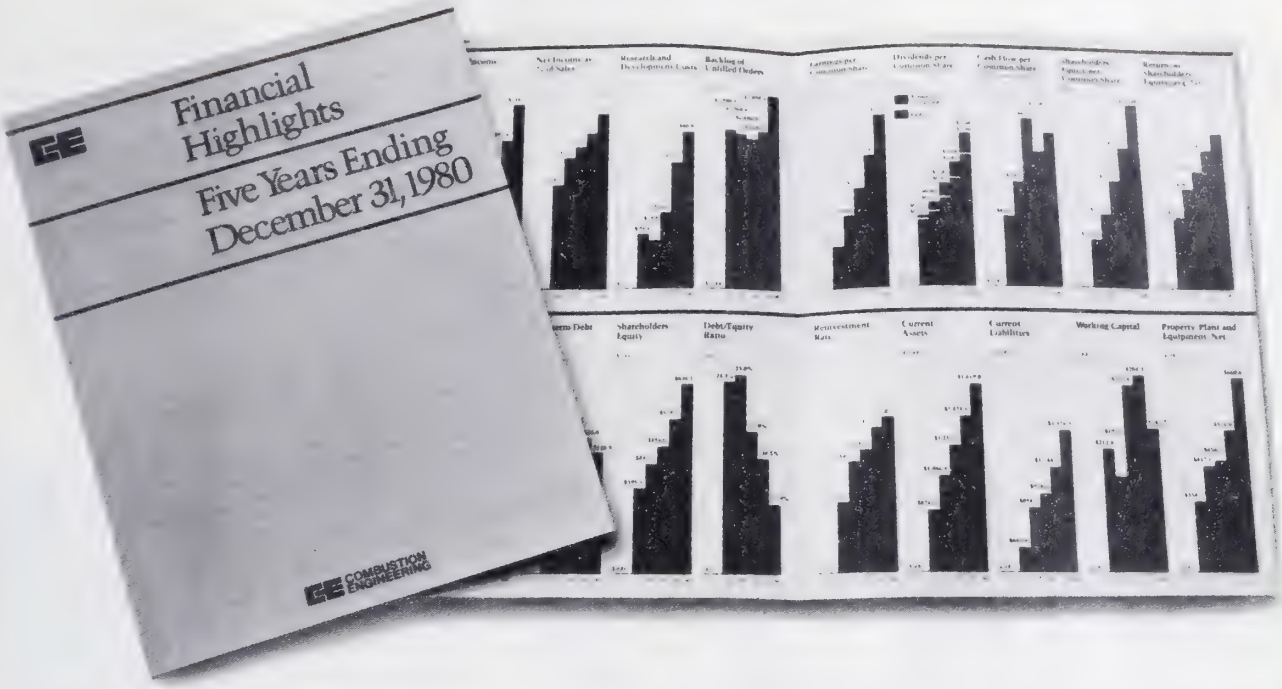
WE DO A BETTER JOB. AND WE'VE GOT A MILLION CUSTOMERS TO PROVE IT.

All Barnett Banks are members of FDIC

THE FORBES MARKET VALUE 500

Rank 1980	Rank 1979	Company	Market value ($000,000)	% change over 1979
6	12	Shell Oil	17,992	114.8
7	9	Standard Oil Ohio	17,685	63.3
8	7	Mobil	17,167	47.1
9	10	Standard Oil Calif	16,980	76.4
10	11	Atlantic Richfield	15,126	63.3
11	8	General Electric	13,951	20.9
12	4	General Motors	13,321	–7.9
13	13	Texaco	12,891	64.5
14	14	Eastman Kodak	11,258	44.9
15	26	Halliburton	9,828	96.6
16	15	Phillips Petroleum	8,941	20.6
17	16	Gulf Oil	8,492	25.7
18	38	Union Oil California	7,742	99.7
19	42	Union Pacific	7,559	119.0
20	18	Getty Oil	7,548	24.6
21	25	Conoco	7,049	38.6
22	19	Minn Mining & Mfg	6,921	17.4
23	23	Merck	6,334	16.5
24	27	Johnson & Johnson	6,165	27.1
25	20	E I du Pont	6,155	5.3
26	35	Tenneco	6,063	48.5
27	34	Sun Company	5,957	43.2
28	21	Dow Chemical	5,869	0.8
29	17	Procter & Gamble	5,697	–7.2
30	29	Philip Morris	5,398	20.4
31	41	Hewlett-Packard	5,392	54.1
32	40	SmithKline	5,317	38.9
33	24	Xerox	5,058	–3.2
34	46	Superior Oil	5,030	56.9
35	28	Caterpillar Tractor	5,017	7.5
36	30	Eli Lilly	4,831	10.9
37	22	Sears Roebuck	4,809	–15.8
38	43	R J Reynolds Inds	4,750	37.9
39	71	Raytheon	4,585	118.0
40	36	BankAmerica	4,454	9.8
41	31	American Home Prod	4,374	2.6
42	52	Digital Equipment	4,363	54.9
43	37	Weyerhaeuser	4,284	7.6
44	47	Marathon Oil	4,257	40.5
45	44	Boeing	4,252	30.9
46	33	General Tel & Elec	4,221	1.2
47	72	Dresser Industries	4,184	107.0
48	32	Coca-Cola	4,125	–3.2
49	62	Cities Service	3,977	71.7
50	51	Pfizer	3,931	37.0
51	67	Engelhard Minerals	3,763	75.0
52	48	Intl Tel & Tel	3,670	24.3
53	57	Abbott Laboratories	3,490	40.7
54	85	Amerada Hess	3,487	93.9
55	137	Texas Oil & Gas	3,419	158.4
56	53	Union Carbide	3,385	21.7
57	90	Rockwell Intl	3,384	92.7
58	112	Litton Industries	3,380	118.3
59	59	Bristol-Myers	3,3[illegible]	37.2
60	91	Baker International	3,244	84.8
61	118	Santa Fe Industries	3,006	102.3
62	60	Deere	3,005	26.3
63	84	Teledyne	2,976	65.0
64	49	Citicorp	2,974	1.1
65	69	American Express	2,869	34.9
66	143	Fluor	2,864	130.5
67	54	Aetna Life & Cas	2,846	6.2
68	64	American Intl Group	2,837	26.6
69	73	Texas Instruments	2,808	39.8
70	79	W R Grace	2,777	52.3
71	75	Occidental Petroleum	2,762	40.8
72	82	United Technologies	2,664	47.1
73	191	Hughes Tool	2,647	165.3
74	78	Sperry	2,593	42.1
75	65	Pennzoil	2,593	16.3
76	58	AMAX	2,561	5.0
77	55	Pacific Gas & Elec	2,539	–2.9
78	297	Tandy	2,534	262.5
79	77	Honeywell	2,532	36.8
80	159	NL Industries	2,531	122.2
81	95	Westinghouse Elec	2,514	47.0
82	63	PepsiCo	2,487	9.9
83	68	Monsanto	2,482	15.5
84	66	American Elec Power	2,479	14.3
85	56	Georgia-Pacific	2,470	–5.0
86	39	Ford Motor	2,406	–37.5
87	284	Burlington Northern	2,397	237.5
88	106	General Dynamics	2,370	47.3
89	■	Dart & Kraft	2,368	NA
90	70	Emerson Electric	2,319	10.0
91	253	Wang Laboratories	2,303	184.0
92	107	Motorola	2,289	43.7
93	45	Burroughs	2,236	–30.7
94	101	RCA	2,209	33.4
95	50	K mart	2,205	–24.4
96	113	United States Steel	2,182	43.7
97	76	Alcoa	2,178	12.9
98	111	Houston Natural Gas	2,155	38.7
99	105	Schering-Plough	2,151	33.5
100	194	Warner Commun	2,146	116.2
101	205	Mesa Petroleum	2,134	121.3
102	83	American Brands	2,103	16.5
103	167	Armco	2,102	91.8
104	87	International Paper	2,073	16.1
105	96	Southern Company	2,067	20.8
106	61	Avon Products	2,053	–13.3
107	92	Kerr-McGee	2,046	16.7
108	126	Upjohn	2,023	43.8
109	99	Texas Eastern	2,000	19.5
110	81	NCR	1,998	10.1
111	86	J P Morgan	1,997	11.7
112	98	Diamond Shamrock	1,989	18.7
113	155	Texasgulf	1,972	70.6
114	88	Commonwlth Edison	1,963	11.7
115	93	McDonald's	1,957	12.2
116	152	Amer Hospital Supply	1,954	
117	■	CSX	1,951	
118	109	So Calif Edison	1,944	
119	161	TRW	1,941	
120	100	Gannett	1,937	
121	138	InterNorth	1,928	
122	129	Freeport Minerals	1,923	
123	124	Connecticut General	1,922	
124	495	Tom Brown	1,912	
125	296	Natomas	1,902	
126	131	McDonnell Douglas	1,891	
127	89	Louisiana Land	1,885	
128	352	Mitchell Enrgy & Dev	1,877	
129	74	Beatrice Foods	1,875	
130	121	AMP	1,867	
131	■	Apple Computer	1,865	
132	178	Murphy Oil	1,865	
133	102	Baxter Travenol Labs	1,843	
134	291	Cameron Iron Works	1,832	
135	156	Martin Marietta	1,812	
136	125	Allied Corp	1,792	
137	110	Texas Utilities	1,790	
138	183	Intl Minerals & Chem	1,777	
139	115	Levi Strauss	1,759	
140	117	Signal Companies	1,743	
141	116	Revlon	1,729	
142	127	Intel	1,720	
143	162	Panhandle Eastern	1,699	
144	237	ENSERCH	1,690	
145	120	Walt Disney	1,659	
146	173	Archer Danls Midland	1,647	
147	80	J C Penney	1,646	
148	104	Travelers	1,646	
149	236	Hospital Corp of Am	1,641	
150	313	Houston Oil & Min	1,639	
151	135	Southland Royalty	1,625	
152	225	Cooper Industries	1,624	
153	238	Harris Corp	1,619	
154	108	Warner-Lambert	1,603	
155	142	INA	1,602	
156	148	Dun & Bradstreet	1,595	
157	259	Missouri Pacific	1,592	
158	114	Consolidated Edison	1,567	
159	103	American Cyanamid	1,564	
160	130	Duke Power	1,564	
161	146	Chase Manhattan	1,564	
162	122	Kellogg	1,548	
163	203	Combustion Engnrng	1,536	
164	258	St Joe Minerals	1,519	
165	254	McDermott	1,514	
166	123	CPC International	1,502	
167	97	General Foods	1,495	
168	277	Santa Fe Intl	1,492	
169	163	Peoples Energy	1,463	
170	249	Perkin-Elmer	1,462	

■ Not on 500 list in 1979 NA Not available



The Energy Systems Company reports on five years of steady growth. It makes great reading.

In 1980, C-E sales set a new record at $3.1 billion. Earnings increased 20% to $116 million, up for the fifth straight year. With a five-year compound annual growth rate of 21.2%. Per share earnings, adjusted for the two-for-one stock split in November, were $3.56 compared with $2.98 the previous year. Dividends were raised to an annual rate of $1.50 per share, the fifteenth consecutive year in which C-E increased its payout to shareholders.

Once again, C-E's oil and gas equipment and services operations led the company's performance, with 1980 revenues totalling over $800 million. That makes us one of the top ten suppliers to the oil patch.

C-E: World leader in energy technology.

We're helping to find and bring in oil and gas. Upgrading and building refineries and petrochemical plants. Developing cleaner, more efficient ways electric utilities and other industries can use coal. Providing equipment and services for nuclear power generation. And leading the way in the development of alternative fuels.

For more information, write Combustion Engineering, Inc., Dept. 7004-189, 900 Long Ridge Road, Stamford, Connecticut, USA 06902.

COMBUSTION ENGINEERING

The Energy Systems Company

MERRILL LYNCH WHITE WELD

THE FACTS:
WHAT WE ARE.

In 1980, as in each of the previous nine years, Merrill Lynch White Weld ranked first among U.S. investment banking firms serving domestic, corporate and governmental clients.

While our size is important, it's the quality of our services that best recommends us. In such volatile economic times, raising money is no simple feat. Our people aren't afraid to take the less-traveled route; they're consistently devising new strategies to raise capital.

Our track record reflects their successful efforts. Merrill Lynch White Weld has raised more capital in the last decade than any other investment firm in the U.S. So it's fair to say that our investment bankers' insight and experience in raising capital is considerable. Below are listed some of the services we provide corporations, governments and financial institutions.

Corporate Underwriting
Managed or co-managed more corporate underwritings than any other investment banking firm for 10th consecutive year: 238 issues totaling over $21 billion

Private Placements
Served as agent or co-agent in the placement of 72 issues totaling over $1.6 billion in 1980. Maintain regular contact with over 300 larger- and medium-size lenders to achieve best financing terms.

Mergers, Acquisitions & Divestitures
In 1980, advised clients in 27 transactions having an aggregate value of $5.5 billion—10 transactions in excess of $100 million each. Advised the targets in four of the twelve major unsolicited tender offers commenced in 1980

Lease Financing
Act as principal and as financial advisor in leveraged lease transactions. Since 1976, made investments involving assets costing over $323 million. Assets financed include airplanes, railroad cars, ships, electric generating and manufacturing facilities.

Real Estate Financing & Sales
In 1980, serviced $1.3 billion of single-family mortgages and arranged for mortgage and joint-venture financing of more than $200 million of commercial projects

International Financing
Combines investment banking and commercial banking with worldwide securities distribution and trading network.

Project Financing
Advise clients on a wide variety of complex project financings. Projects range from a hydroelectric power facility in Canada to a facility to extract oil in Colorado.

Commercial Paper
One of the largest dealers serving close to 150 issuing clients. Expect to place $100 billion during 1981 through 300 offices with more than 5,000 institutional investors worldwide.

Certificates of Deposit
A major dealer serving over 175 issuing clients. Expect to place $50 billion in negotiable CD's during 1981, including $1.5 billion in $100,000 CD's for commercial banks and S & L's.

Bankers' Acceptances
Perhaps the largest dealer serving over 150 foreign and domestic banks and Edge Act corporations.

Medium Term Notes
Prepared to place shelf-oriented MTN's (9 months to 5 years in maturity), privately or publicly, fixed or floating rate, for foreign or domestic borrowers.

Industrial Revenue Bond Financing
In the last two years, managed 24 industrial revenue bond financings totaling over $300 million for facilities in 17 states.

Exchange & Tender Offers
Leader in management of dealer groups for clients who desire to improve their financial structure or establish major shareholdings in other companies.

Pollution-Control Financing
Counsel clients when this form of financing offers the most attractive terms. In 1980, managed or co-managed 15 offerings of pollution control bonds totaling over $500 million

Government Guaranteed Financing and Trading
A recognized financing and trading leader utilizing U.S.-government guaranteed loan programs.

Municipal Financing and Underwriting
Secured 167 new clients in 1980. Leading underwriter of municipal issues managing 560 issues with a face value of $16.8 billion. Leading Health Care Finance underwriter for second consecutive year.

Municipal Trading
1980 trading volume $24 billion Maintain one of the largest inventories with 100 percent weekly turnover that insures an active secondary market.

Financial Advisory and Evaluation Services
Specialty is financial evaluation of securities and businesses for tax, estate, and accounting purposes.

Limited Partnership Offerings
Our oil- and gas-tax investment group is the leading investment banker in direct funding of independent operators for oil and gas exploration and production, having raised in 1980 $261 million of equity through sale of 21 public and 10 private partnerships.

Trading U.S. Corporate Bonds and Preferred Stocks
Leading trader of corporate fixed-income securities in U.S. Staff of 32 traders one of largest on Wall Street

Trading U.S. Government & Agency Securities
Leading dealer in U.S.-government and federal agency securities. Volume of government securities in 1980 exceeded $400 billion and daily net inventories averaged over $260 million

Trading Eurobond, Yankee and Canadian Bonds
Make markets in over 700 issues of international securities in capital markets around the world

Mortgage-Backed Securities
Leading dealer, underwriter and distributor of both government-guaranteed and conventional mortgage-backed securities. 1980 volume over $20 million.

Trading Convertible Securities
Make markets in virtually all actively traded convertible securities, and in many less active issues

Sinking Fund Repurchases
Devised sophisticated computer programs providing our clients with a repurchase program in the most cost-effective manner

Corporate Stock Repurchases
We are a leader in executing repurchasing programs at the best terms available in the marketplace

Trading Commodities
We are the leading futures broker in the world, with over 50 years of experience in trading commodities for hedgers

Financial Futures
In 1980, our volume in financial futures contracts increased 80% versus 1979.

Bond Funds Sales
Most active sponsor of unit trusts of municipal, corporate and government bonds in the securities industry. In 1980, we sold approximately $9.3 billion of bond funds.

Restricted Brokerage Transactions
Ranked first in the number of Rule 144 transactions each year since the Rule's inception

Securities Swaps
Designed several computer programs evaluating the risks and returns on swap transactions of debt and equity securities.

Block Trading Listed Equity Securities
Executions of 100,000-plus shares increased 135% from 1979 with 70 traders completing transactions covering more than 1 billion shares

Domestic and International Securities Arbitrage
A major factor in trading of over 200 equities listed overseas as well as domestic risk arbitrage.

Market Making in Over-the-Counter Stocks
Top-ranked OTC house for the last 5 years. Make markets in nearly 700 OTC issues. Domestic OTC inventory can be as great as $30 million on an overnight aggregate.

Trading Stock Options
Trading volume doubled in 1980 with sharp rise of institutional participation. Provide special trading services for option orders of 25 contracts or more.

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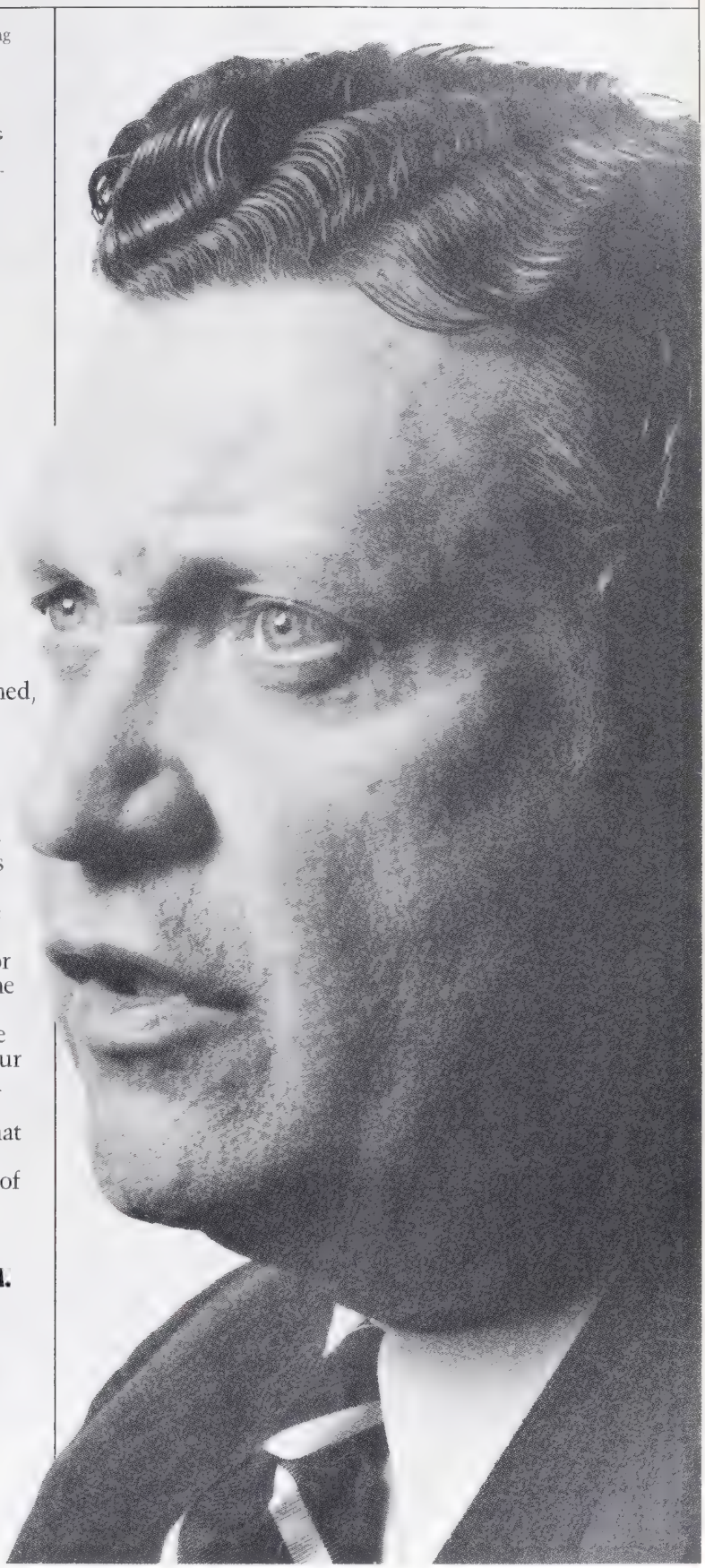
rading Listed Odd-Lots
xecuted 28% of total reported dd-lot volume in 1980. Able to ct as odd-lot dealer for any sted U.S. stock.

ecurities Research
1980, Institutional Investor agazine rated our research am best in the business for e third straight year. Provide nalysis of more companies than anybody else, publishing an average of 30-plus reports daily.

Underwritten Redemptions of Convertible Securities
Counsel the advisability of calling or redeeming convertible securities. Able to form dealer groups to streamline conversion or redemption.



THE FIGURES:

"Investment banking today s no longer old school ties. t is expertise and professionalism nd being able to deliver the goods."

dmond N. Moriarty, Jr.
xecutive Vice President, Capital Markets Group

"...of course, we have a solid group of seasoned, xperienced professionals in our ranks, but what I nd particularly exciting is that we've developed a ore of very able young bankers who are making eir mark in the investment banking community.

"They're astute, knowledgeable, current on hat's going on in the marketplace...a lot of investnent bankers are up to snuff on what interest rates re doing but don't use the information creatively. urs have a very broad horizon, know what all the apital markets are doing, advise quickly and conisely on the impact on the client if they did this or at type of financing, know how to get through the indow before the opportunity disappears...

"We're bringing more and better ideas to the lient. Together with our trading capabilities, and our ommand of the capital markets in general, we can and behind our ideas to the benefit of the client.

"I think when you apply all the expertise that errill Lynch White Weld can bring to bear, quite mply, you have a firm with a most impressive set of redentials."

F YOU THINK THE FACTS ARE IMPRESSIVE, AIT UNTIL YOU HEAR THE THINKING BEHIND THEM.

Merrill Lynch
A breed apart.

Merrill Lynch, Pierce, Fenner & Smith Inc. and Affiliates

THE FORBES MARKET VALUE 500

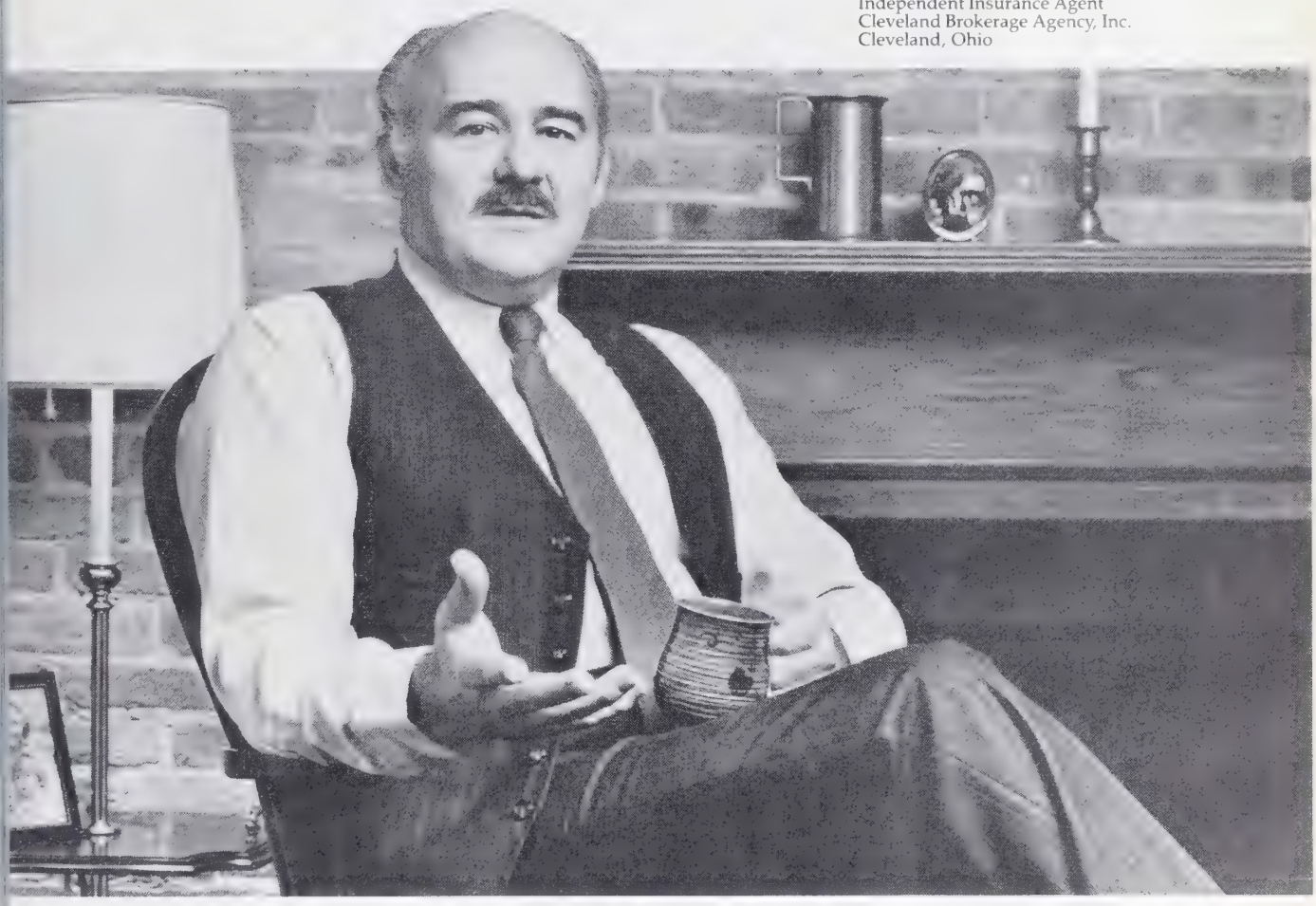
Rank 1980	Rank 1979	Company	Market value ($000,000)	% change over 1979
171	348	SEDCO	1,459	143.6
172	176	Time Inc	1,458	37.3
173	287	Smith International	1,444	104.0
174	171	So Natural Resources	1,436	31.7
175	94	Squibb	1,432	−16.9
176	199	Ingersoll-Rand	1,427	44.7
177	144	Times Mirror	1,415	14.2
178	193	G D Searle	1,409	41.8
179	234	Williams Companies	1,405	61.5
180	295	Merrill Lynch	1,382	97.6
181	134	Federated Dept Stores	1,380	3.4
182	149	Sterling Drug	1,374	14.0
183	210	PPG Industries	1,360	44.4
184	141	General Mills	1,360	8.1
185	215	Bendix	1,359	46.5
186	189	Transco Companies	1,356	34.6
187	154	Western Bancorp	1,355	17.1
188	283	Petrolane	1,344	88.9
189	140	Champion Intl	1,336	5.0
190	145	Columbia Gas Sys	1,334	7.7
191	255	Utd Energy Resources	1,332	66.4
192	119	CBS	1,328	−9.0
193	168	Lubrizol	1,315	20.1
194	242	Big Three Industries	1,313	54.5
195	241	Norfolk & Western Ry	1,308	53.8
196	223	Control Data	1,303	43.0
197	365	Humana	1,303	129.8
198	136	Pub Svc Elec & Gas	1,302	−1.8
199	390	Helmerich & Payne	1,300	146.1
200	166	ASARCO	1,281	15.9
201	200	Marsh & McLennan	1,262	28.7
202	■	Western Co No Amer	1,260	237.3
203	187	Anheuser-Busch Cos	1,254	23.1
204	248	Southern Railway	1,241	49.9
205	165	Crown Zellerbach	1,241	12.2
206	157	Middle South Utils	1,235	8.1
207	160	Continental Illinois	1,229	8.1
208	132	United Telecom	1,226	−8.3
209	128	Continental Corp	1,225	−12.3
210	186	Union Camp	1,224	20.0
211	164	Transamerica	1,223	10.1
212	207	Kimberly-Clark	1,218	27.7
213	179	Houston Industries	1,215	16.1
214	211	General American Oil	1,210	28.6
215	■	Prime Computer	1,206	319.8
216	175	El Paso	1,203	12.9
217	394	Waste Management	1,202	130.8
218	192	Newmont Mining	1,201	20.6
219	153	Colgate-Palmolive	1,198	1.8
220	230	General Signal	1,195	33.4
221	251	Gulf & Western Inds	1,192	46.2
222	174	U S Fidelity & Gty	1,189	11.1
223	315	Noble Affiliates	1,188	80.1
224	182	Air Prods & Chems	1,180	13.3
225	264	Delta Air Lines	1,178	50.0
226	137	General Re	1,169	10.6
227	■	M/A-Com	1,162	557.4
228	302	MAPCO	1,159	68.1
229	158	Phila Electric	1,158	1.6
230	470	Datapoint	1,155	170.6
231	217	Bethlehem Steel	1,152	24.9
232	216	Goodyear	1,148	24.4
233	172	Amer Natl Resources	1,145	5.6
234	300	CBI Industries	1,145	65.2
235	294	McGraw-Hill	1,144	63.5
236	185	Florida Power & Lt	1,141	11.8
237	181	Northwest Industries	1,137	9.1
238	139	MCA	1,137	−11.1
239	151	Ralston Purina	1,133	−4.6
240	169	Tektronix	1,130	3.3
241	364	Dover	1,122	97.9
242	202	St Regis Paper	1,120	15.0
243	357	Homestake Mining	1,114	90.8
244	250	Hilton Hotels	1,114	35.2
245	338	Pioneer	1,106	79.0
246	224	Southern Pacific	1,103	21.3
247	256	Consol Natural Gas	1,103	38.2
248	279	Loews	1,100	51.7
249	184	Mfrs Hanover	1,100	6.3
250	429	Centl Louisiana Engy	1,094	133.1
251	196	Corning Glass Works	1,092	10.3
252	■	Computervision	1,077	254.4
253	147	Ashland Oil	1,075	−11.8
254	209	Continental Group	1,071	13.5
255	226	H J Heinz	1,070	17.9
256	459	Rowan Companies	1,067	146.7
257	309	Becton, Dickinson	1,051	54.8
258	190	Dayton-Hudson	1,044	3.8
259	198	Stauffer Chemical	1,038	5.1
260	201	Va Electric & Power	1,037	6.3
261	305	Nalco Chemical	1,035	50.9
262	263	First Intl Bshs	1,034	31.8
263	188	Central & South West	1,027	1.3
264	214	Carnation	1,013	8.6
265	233	Textron	1,012	16.1
266	197	Campbell Soup	1,004	1.5
267	341	Sundstrand	1,001	62.4
268	270	Coastal Corp	997	92.5
269	415	Parker Drilling	993	104.7
270	382	Norton	989	82.3
271	246	FMC	981	17.4
272	231	Long Island Lighting	980	11.2
273	392	Wal-Mart Stores	978	86.2
274	■	Reading & Bates	975	199.1
275	307	Pacific Pwr & Lt	970	41.9
276	261	Kaiser Alum & Chem	966	22.0
277	206	Pittston	965	0.4
278	423	Cabot	961	101.2
279	195	Consumers Power	958	−3.2
280	■	Global Marine	953	347.7
281	266	Security Pacific	952	
282	336	Dow Jones	950	
283	328	Texas Commerce Bshs	947	
284	221	Farmers Group	946	
285	262	Carolina Pwr & Lt	928	
286	218	Detroit Edison	914	
287	286	Chesebrough-Pond's	913	
288	213	American General	912	
289	228	Boise Cascade	909	
290	446	General Instrument	896	
291	274	Borg-Warner	896	
292	180	Kennecott	893	
293	332	Ark Louisiana Gas	892	
294	■	Wheelabrator-Frye	890	
295	272	American Standard	890	
296	304	Melville	890	
297	243	Knight-Ridder News	888	
298	■	Tandem Computers	888	
299	433	Natl Semiconductor	883	
300	323	Gould	883	
301	■	Sabine	879	
302	247	Continental Tel	877	
303	432	Energy Reserves Gp	875	
304	377	Pogo Producing	875	
305	359	Holiday Inns	865	
306	356	Northrop	864	
307	289	Nabisco	860	
308	■	Valero Energy	860	
309	229	National Distillers	850	
310	318	Arizona Public Serv	843	
311	260	Gillette	842	
312	370	Texas Gas Transmn	840	
313	443	Foster Wheeler	840	
314	239	Niagara Mohawk Pwr	837	
315	282	Intl Flavors & Frag	833	
316	227	Lincoln National	833	
317	252	NLT	823	
318	■	Tidewater	822	
319	219	Polaroid	821	
320	367	Marriott	821	
321	235	Owens-Corning Fbrgls	819	
322	150	Intl Harvester	816	
323	384	Penn Central	816	
324	257	Ohio Edison	814	
325	240	St Paul Companies	812	
326	■	Federal Express	808	
327	285	Scott Paper	807	
328	232	Hercules	806	
329	349	NICOR	798	
330	220	Safeway Stores	797	
331	■	ROLM	792	
332	267	Pa Power & Light	791	
333	308	Celanese	787	
334	■	Gearhart Industries	787	
335	■	Avnet	786	

■ Not on 500 list in 1979.

CNA believes working with agents is one of the most effective ways we help keep insurance affordable.

"CNA's commitment to all lines of insurance helps life agents like me maintain stable client relationships. Whether it's for life, homeowners, auto, or business, CNA doesn't introduce a product one year and withdraw it the next. They make sure they're right in the first place by talking with me and other independent agents who represent CNA. After all, we know the kinds of products our clients need. Relationships like this are one of the things that make the American Agency System great."

P. Thomas Pope, CLU
Independent Insurance Agent
Cleveland Brokerage Agency, Inc.
Cleveland, Ohio



INSURANCE FROM
CNA

Judge us by the agents who represent us

Continental Casualty Company/Continental Assurance Company/CNA Plaza/Chicago, IL 60685

THE FORBES MARKET VALUE 500

Rank 1980	Rank 1979	Company	Market value ($000,000)	% change over 1979
336	327	Phelps Dodge	786	22.8
337	321	Jack Eckerd	782	19.7
338	271	Crum & Forster	782	3.2
339	273	Standard Brands	774	3.5
340	204	Black & Decker	773	–20.0
341	299	May Dept Stores	772	11.1
342	■	Natl Medical Entrprs	771	189.5
343	387	Auto Data Processing	771	44.8
344	■	Tele-Communications	766	150.1
345	■	Geosource	766	165.5
346	427	Belco Petroleum	765	62.6
347	276	Borden	764	2.7
348	405	First City Bancorp	762	51.4
349	312	Eaton	762	13.8
350	456	Bankers Trust N Y	761	75.7
351	■	Zapata	759	219.0
352	244	Dana	758	–9.7
353	170	Amer Broadcasting	758	–30.6
354	329	Capital Cities Comm	758	19.4
355	245	Household Finance	757	–9.8
356	269	Lucky Stores	757	–1.5
357	292	Pillsbury	752	7.2
358	346	Fort Howard Paper	752	23.1
359	361	Beckman Instruments	751	31.2
360	317	Northwest Bancorp	749	13.6
361	408	Kaneb Services	748	50.2
362	335	Masco	748	19.4
363	■	LTV	746	259.6
364	362	Pacific Lumber	746	30.4
365	275	F W Woolworth	741	–0.5
366	373	Square D	740	33.3
367	457	Cox Broadcasting	740	70.8
368	360	Owens-Illinois	738	28.1
369	444	Bausch & Lomb	735	64.1
370	462	Cincinnati Milacron	734	69.8
371	445	Overseas Shipholding	729	63.1
372	496	Joy Manufacturing	726	82.0
373	322	Genuine Parts	724	11.1
374	288	Union Electric	719	1.9
375	265	Norton Simon	718	–7.8
376	325	Louisiana-Pacific	714	11.2
377	208	Fedl Natl Mortgage	702	–25.8
378	298	Public Service Ind	700	0.5
379	310	Whirlpool	698	2.8
380	278	Winn-Dixie Stores	695	–5.5
381	406	Brown-Forman Dist	694	38.7
382	268	Consolidated Foods	692	–10.3
383	395	Roadway Express	692	32.9
384	281	Koppers	691	–4.1
385	280	Safeco	690	–4.7
386	366	R H Macy	687	21.2
387	435	Tosco	685	49.0
388	324	Mead	684	6.5
389	■	Crouse-Hinds	681	196.2
390	340	MGIC Investment	680	10.1
391	363	Timken	679	18.8
392	376	Data General	679	22.9
393	311	Cleveland Elec Illum	677	0.9
394	374	Interco	676	21.9
395	342	Reynolds Metals	676	9.7
396	■	Inexco Oil	673	72.5
397	461	City Investing	669	54.8
398	■	DEKALB AgResearch	666	76.2
399	439	Eastern Gas & Fuel	662	45.1
400	399	R R Donnelley & Sons	660	28.0
401	■	Cray Research	659	233.7
402	438	Raychem	656	43.4
403	344	Wells Fargo	652	6.4
404	293	Baltimore Gas & Elec	646	–7.9
405	■	Amer Medical Intl	644	85.0
406	351	Utah Power & Light	642	7.8
407	334	Central Tel & Utils	641	2.3
408	■	Lear Siegler	639	83.6
409	379	Chemical New York	639	17.0
410	388	Medtronic	639	20.3
411	■	Amer Quasar Petro	638	142.0
412	306	No States Power	631	–8.0
413	483	American Petrofina	631	54.2
414	471	Pioneer Hi-Bred Intl	630	47.7
415	354	Alexander & Alexander	629	6.7
416	469	Storage Technology	628	47.1
417	398	Gt Northern Nekoosa	625	20.9
418	■	Felmont Oil	623	230.1
419	381	Mellon National	623	14.5
420	343	First Chicago	622	1.2
421	368	Illinois Power	617	9.4
422	331	Greyhound	615	–2.6
423	■	Delhi Intl Oil	615	355.9
424	369	Quaker Oats	614	9.1
425	418	Republic of Texas	611	26.3
426	492	Deluxe Check Printers	611	50.4
427	330	Heublein	609	–4.0
428	401	Firestone	606	18.4
429	393	Kroger	604	15.1
430	■	EG&G	600	86.0
431	353	First Bank System	600	1.2
432	337	Rohm & Haas	598	–3.6
433	397	Westvaco	598	15.6
434	371	Colt Industries	591	5.3
435	468	McGraw-Edison	588	37.7
435	498	A E Staley Mfg	588	47.8
437	320	Inland Steel	587	–10.4
438	303	American Can	587	–14.7
439	222	Bally Manufacturing	587	–35.9
440	437	PACCAR	583	27.5
441	■	Shearson Loeb Rhoades	583	432.5
442	■	Petro-Lewis	581	315.0
443	440	Potlatch	575	26.4
444	460	Public Service Colo	570	31.8
445	■	Amdahl	570	63.5
446	428	Gulf States Utils	569	
447	■	McRae Consol Oil&Gas	567	
448	383	Johns-Manville	566	
449	■	Adobe Oil & Gas	562	
450	■	Centex	559	
451	380	Pacific Lighting	559	
452	481	Supron Energy	558	
453	■	First Mississippi	557	
454	339	Allegheny Power	554	
455	■	Twentieth Century-Fox	554	
456	319	Jefferson-Pilot	552	
457	434	Adolph Coors	551	
458	■	Tymshare	549	
459	347	Northeast Utilities	546	
460	■	Teleprompter	543	
461	400	USLIFE	542	
462	333	Esmark	539	
463	458	Super Valu Stores	535	
464	403	United States Gypsum	534	
465	475	Willamette Inds	533	
466	422	Potomac Elec Power	531	
467	■	Advanced Micro Devcs	527	
468	■	Mallinckrodt	524	
469	■	Pall	523	
470	375	Ethyl	522	
471	■	Parsons	517	
472	314	UAL	517	
473	350	Northwest Airlines	514	
474	■	Petrolite	512	
475	412	Gulf United	512	
476	■	Northwest Energy	511	
477	■	Crocker National	509	
478	417	Duquesne Light	507	
479	425	Burlington Inds	505	
480	■	IC Industries	505	
481	449	Pitney Bowes	504	
482	■	Dorchester Gas	504	
483	487	Bucyrus-Erie	503	
484	■	North Amer Philips	502	
485	421	Diamond Intl	498	
486	372	Capital Holding	495	
487	■	Rollins	494	
488	409	Jim Walter	494	
489	■	Phila Suburban	493	
490	■	Foremost-McKesson	493	
491	452	Avco	492	
492	■	MCI Communications	489	
493	488	Parker-Hannifin	489	
494	391	W W Grainger	488	
495	■	Peabody Intl	488	
496	426	Chubb	486	
497	■	Foxboro	486	
498	450	Cessna Aircraft	485	
499	■	Sanders Associates	485	
500	316	Southland	485	

■ Not on 500 list in 1979

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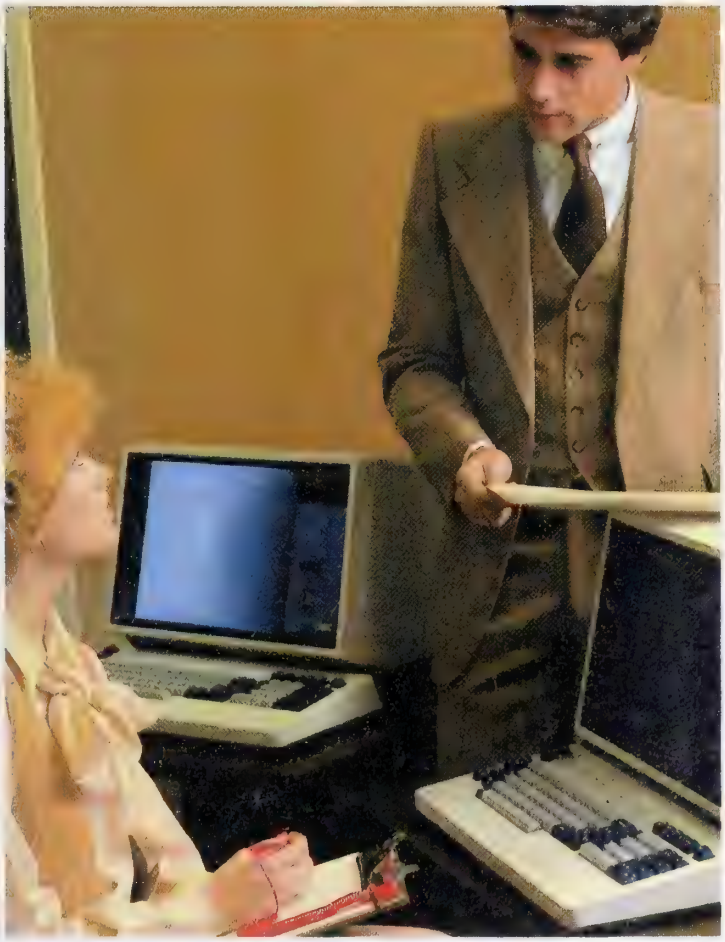

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NEC
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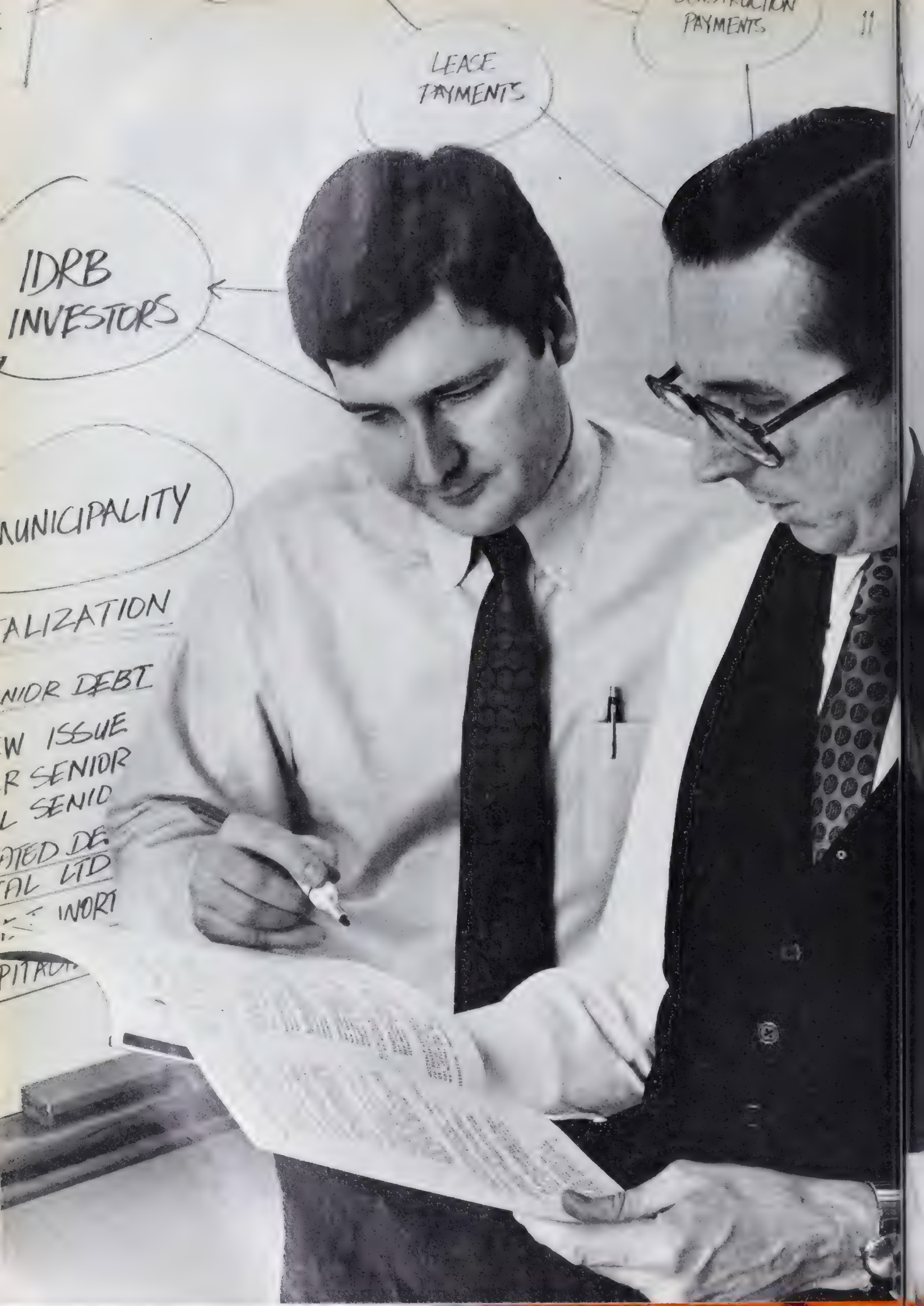
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Long term.
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Or a combination.

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We look for ways to match the cash flows generated by assets with the capital supporting those assets. And we work within a framework of factors such as your projected growth and our evaluation of current and future capital market conditions.

If a private placement is indicated, our in-depth knowledge of the market enables us to locate the institutional investors whose industry preference and investment criteria mesh closely with your situation.

One more thing. If a sudden shift in interest rates dictates a delay in the deal, First Chicago has the capability to provide a bridge loan to tide you over.

If you're planning a private placement, or if you'd like to explore the long and short of corporate finance, contact your First Chicago relationship officer. Or phone Geoffrey Stringer, Division Head, Corporate Finance (312) 732-6532.

Geoffrey Stringer, Division Head, Corporate Finance (left) structures a private placement with Jim Brannen, head of First Chicago's Midwest Division.

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SUMMARY

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
398	292	53	126	**Abbott Laboratories (Dec)**	2,062,835	2,038,155	3,489,610	214,
■	486	■	■	**ACF Industries (Dec)**	1,109,488	1,029,063	414,414	44,
■	■	449	■	**Adobe Oil & Gas (Dec)**	277,938	154,382	561,920	21,
■	■	467	■	**Advanced Micro Devices (Mar)**	164,756	225,593	527,160	23,
11	23	67	38	**Aetna Life & Casualty (Dec)**	35,752,700	13,318,000	2,845,636	508,
44	396	■	■	**H F Ahmanson (Dec)**	13,109,603	1,371,119	463,106	48,
469	383	224	266	**Air Products & Chemicals (Sept)**	1,750,621	1,420,759	1,180,222	115,
■	482	■	■	**Akzona (Dec)**	846,708	1,054,015	151,458	4,
■	■	■	442	**Alaska Interstate (Dec)**	593,631	261,652	433,251	63,
■	188	■	■	**Albertson's (Jan)**	627,219	3,039,129	300,125	41,
■	268	■	■	**Alco Standard (Sept)**	739,055	2,234,327	322,875	50,
■	■	415	469	**Alexander & Alexander Services (Dec)**	673,263	411,872	628,524	56,
■	■	■	402	**Alexander & Baldwin (Dec)**	655,492	431,733	292,736	71,
222	448	■	487	**Alleghany (Dec)**	3,353,622	1,165,620	308,583	54,
255	450	454	294	**Allegheny Power System (Dec)**	3,009,892	1,159,502	553,960	103,
275	■	■	■	**Allied Bancshares (Dec)**	2,855,187	294,346	374,874	37,
154	77	136	81	**[1]Allied Corp (Dec)**	4,538,000	5,519,000	1,791,662	289,
491	257	■	355	**Allied Stores (Jan)**	1,620,270	2,298,838	421,091	83,

■ Not on 500 list. [1]Formerly Allied Chemical.

On these and the following pages, a summary of all four FORBES 500 rosters. The companies are listed alphabetically. We give their rankings in sales, profits, assets and market value, the actual figures reported that determined those rankings, and the names of their chief executives.

sh w 00)	Share data: 1980 — Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
4,610	61,763	NYSE	ABT	3.46	1.15	56½	North Chicago, Ill	31.0	**Robert A Schoellhorn**
6,059	9,009	NYSE	ACF	5.02	2.44	46	New York, NY	13.3	**John F Burditt**
6,106	14,196	ASE	AOI	1.47	0.13	39⅝	Midland, Tex	0.4	**B J Pevehouse**
8,126	15,280	NYSE	AMD	1.47	none	34½	Sunnyvale, Cal	7.3	**Walter J Sanders III**
2,500	80,442	NYSE	AET	6.30	2.04	35⅜	Hartford, Conn	39.1	**John H Filer**
7,378	23,749	NYSE	AHM	2.07	1.20	19½	Los Angeles, Cal	4.3	**William H Ahmanson**
6,878	28,525	NYSE	APD	4.07	0.80	41⅜	Allentown, Pa	15.2	**Edward Donley**
6,620	12,239	NYSE	AXO	0.40	0.80	12⅜	Asheville, NC	15.9	**Claude S Ramsey**
5,617	12,558	NYSE	AKI	5.22	0.50	34½	Houston, Tex	1.4	**O Charles Honig**
6,504	14,821	NYSE	ABS	2.70	0.75	20¼	Boise, Ida	27.0	**Warren E McCain**
3,957	9,427	NYSE	ASN	5.25	1.76	34¼	Valley Forge, Pa	17.8	**Ray B Mundt**
0,671	18,486	NASDAQ	AALS	3.06	1.64	34	New York, NY	7.5	**John A Bogardus Jr**
1,740	9,148	NASDAQ	ALEX	7.89	1.93	32	Honolulu, Haw	3.8	**Robert J Pfeiffer**
0,604	9,351	NYSE	Y	4.76	1.08	33	New York, NY	9.0	**Fred M Kirby**
1,212	40,288	NYSE	AYP	2.59	1.80	13¾	New York, NY	5.6	**Charles B Finch**
4,662	11,403	NASDAQ	ALBN	3.36	0.79	32⅞	Houston, Tex	1.7	**Gerald H Smith**
4,000	33,489	NYSE	ACD	8.15	2.15	53½	Morris Township, NJ	46.9	**Edward L Hennessey Jr**
0,041	20,172	NYSE	ALS	4.11	1.68	20⅞	New York, NY	54.0	**Thomas M Macioce**

hare data adjusted for stock splits and stock dividends through May 11, 1981.

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net prof ($000)
■	287	■	■	**Allis-Chalmers (Dec)**	1,548,830	2,063,940	453,051	48,22
142	90	97	45	**Aluminum Company of America (Dec)**	5,188,082	5,147,608	2,178,317	469,94
134	201	76	44	**AMAX (Dec)**	5,275,600	2,949,170	2,560,676	470,39
■	■	445	■	**Amdahl (Dec)**	389,606	394,351	569,633	15,22
109	56	54	35	**Amerada Hess (Dec)**	5,895,444	7,868,963	3,486,873	540,24
231	141	■	■	**American Airlines (Dec)**	3,277,883	3,820,978	258,282	–125,23
428	■	■	■	**American Bank & Trust Pa (Dec)**	1,930,349	200,466	97,048	19,64
182	121	102	50	**American Brands (Dec)**	3,970,883	4,276,527	2,103,118	405,48
■	262	353	205	**American Broadcasting Companies (Dec)**	1,410,876	2,256,216	758,117	146,30
282	108	438	349	**American Can (Dec)**	2,822,000	4,812,200	587,149	85,70
268	160	159	187	**American Cyanamid (Dec)**	2,916,563	3,453,934	1,564,401	159,19
56	147	84	61	**American Electric Power (Dec)**	10,951,984	3,756,464	2,478,803	348,37
28	78	65	58	**American Express (Dec)**	19,709,000	5,504,000	2,868,779	376,00
305	■	■	■	**American Fletcher (Dec)**	2,656,592	293,053	70,789	19,09
83	258	288	176	**[2]American General (Dec)**	7,293,328	2,291,716	912,364	167,35
345	143	41	47	**American Home Products (Dec)**	2,370,262	3,798,524	4,374,478	445,88
■	251	116	249	**American Hospital Supply (Dec)**	1,457,459	2,339,896	1,953,971	122,19
87	217	68	85	**American International Group (Dec)**	6,899,756	2,709,475	2,837,100	282,16
■	■	405	■	**American Medical International (Aug)**	544,530	537,059	643,833	32,38
■	234	■	■	**American Motors (Dec)**	1,028,957	2,552,587	220,782	–197,52
271	■	■	422	**American National Insurance (Dec)**	2,894,938	661,126	395,893	67,97
162	189	233	258	**American Natural Resources (Dec)**	4,383,491	3,038,546	1,145,210	118,23
■	282	413	290	**American Petrofina (Dec)**	1,187,572	2,098,464	630,513	104,27
■	■	411	■	**American Quasar Petroleum (Dec)**	210,220	44,935	637,787	4,92
425	■	■	■	**American Savings & Loan Assn of Fla (Sept)**	1,935,931	186,831	54,699	4,55
299	■	■	■	**American Security (Dec)**	2,713,526	273,100	123,476	23,82
■	221	295	188	**American Standard (Dec)**	1,578,371	2,673,589	890,354	156,89
■	65	■	■	**American Stores (Jan)**	1,292,992	6,419,884	209,945	51,55
1	5	2	1	**American Telephone & Telegraph (Dec)**	125,450,800	50,791,200	36,137,247	6,079,70
123	■	■	■	**AmeriTrust (Dec)**	5,601,942	566,444	288,344	51,79
■	360	■	467	**AMF (Dec)**	979,321	1,534,030	451,990	56,59
■	300	■	385	**Amfac (Dec)**	1,235,983	1,922,399	365,780	76,10
■	453	130	232	**AMP (Dec)**	929,192	1,155,382	1,867,293	131,27
294	■	■	■	**[3]AmSouth Bancorporation (Dec)**	2,738,570	281,522	149,405	28,35
■	414	■	■	**Amstar (June)**	606,931	1,284,988	211,148	30,85
■	■	■	406	**Amsted Industries (Sept)**	453,321	914,868	465,750	71,20
■	335	■	499	**Anderson, Clayton (June)**	865,016	1,703,102	253,894	52,74
328	170	203	169	**Anheuser-Busch Companies (Dec)**	2,449,800	3,295,400	1,253,856	171,80
■	■	131	■	**Apple Computer (Sept)**	65,350	117,126	1,865,341	11,69
■	212	■	440	**ARA Services (Sept)**	1,097,065	2,806,020	347,823	63,24
■	213	146	264	**Archer Daniels Midland (June)**	1,365,564	2,802,011	1,647,311	115,95
405	■	■	■	**Arizona Bank (Dec)**	2,030,727	213,390	120,842	15,48
264	■	310	208	**Arizona Public Service (Dec)**	2,928,484	765,760	842,722	143,29
■	■	293	394	**Arkansas Louisiana Gas (Dec)**	1,219,550	974,510	892,222	73,42
192	75	103	95	**Armco (Dec)**	3,805,400	5,678,000	2,101,856	265,30
■	407	■	■	**[4]Armstrong World Industries (Dec)**	891,513	1,322,967	352,645	48,56
401	311	200	125	**ASARCO (Dec)**	2,044,751	1,817,032	1,280,676	216,47
221	52	253	134	**Ashland Oil (Sept)**	3,357,614	8,118,369	1,074,694	205,12
■	297	■	■	**Associated Dry Goods (Jan)**	1,020,871	1,952,239	331,485	52,21
440	■	■	■	**Atlantic Bancorp (Dec)**	1,897,418	189,925	76,096	15,61

■ Not on 500 list.

[2]Formerly American General Insurance.
[3]Formerly Alabama Bancorporation.
[4]Formerly Armstrong Cork.

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
74,423	12,455	NYSE	AH	3.60	2.00	36⅜	West Allis, Wisc	28.9	**David C Scott**
735,815	73,066	NYSE	AA	6.54	1.60	29⅞	Pittsburgh, Pa	45.6	**W H Krome George**
524,330	62,077	NYSE	AMX	7.48	2.40	41¼	Greenwich, Conn	20.4	**Pierre Gousseland**
76,242	16,878	ASE	AMH	0.83	0.40	33¾	Sunnyvale, Cal	4.0	**Eugene R White**
046,870	80,389	NYSE	AHC	6.44	1.00	43⅜	New York, NY	8.4	**Leon Hess**
52,215	28,698	NYSE	AMR	–4.78	0.10	9	Dallas, Tex	45.3	**Albert V Casey**
25,075	7,058	NASDAQ	APEN	2.78	0.95	13¾	Reading, Pa	1.8	**Samuel A McCullough**
462,649	27,137	NYSE	AMB	14.02	5.90	77½	New York, NY	52.5	**Edward W Whittemore**
90,180	28,209	NYSE	ABC	5.18	1.60	26⅞	New York, NY	12.8	**Leonard H Goldenson**
242,100	19,330	NYSE	AC	4.26	2.90	30⅜	Greenwich, Conn	51.0	**William S Woodside**
327,046	47,951	NYSE	ACY	3.32	1.60	32⅝	Wayne, NJ	42.6	**Dr James G Affleck**
749,957	146,892	NYSE	AEP	2.41	2.23	16⅞	Columbus, Ohio	26.7	**Willis S White Jr**
55,000	71,274	NYSE	AXP	5.27	1.95	40¼	New York, NY	44.0	**James D Robinson III**
28,826	4,567	NASDAQ	AFLT	4.16	1.24	15½	Indianapolis, Ind	2.5	**Frank E McKinney Jr**
758,410	24,493	NYSE	AGC	6.56	1.00	37¼	Houston, Tex	8.3	**Harold S Hook**
625,568	155,537	NYSE	AHP	2.84	1.70	28⅛	New York, NY	49.8	**John W Culligan**
202,944	40,602	NYSE	AHS	3.03	0.89	48⅛	Evanston, Ill	31.1	**Karl D Bays**
677,873	37,828	NASDAQ	AIGR	7.48	0.48	75	New York, NY	20.8	**Maurice R Greenberg**
63,756	15,149	NYSE	AMI	2.12	0.56	42½	Beverly Hills, Cal	18.4	**Royce Diener**
31,897	56,976	NYSE	AMO	–6.00	0.15	3⅞	Southfield, Mich	24.9	**Gerald C Meyer**
00,349	30,749	NASDAQ	ANAT	2.21	0.62	12⅞	Galveston, Tex	12.7	**Orson C Clay**
61,695	23,253	NYSE	ANR	5.11	3.38	49¼	Detroit, Mich	16.0	**Arthur R Seder Jr**
76,885	10,778	ASE	API A	9.69	3.00	58½	Dallas, Tex	2.7	**Richard I Galland**
20,676	20,009	NASDAQ	AQAS	0.25	none	31⅞	Fort Worth, Tex	0.3	**Richard L Lowe**
04,568	2,559	NYSE	AAA	1.83	0.80	21⅜	Miami, Fla	0.8	**Morris N Broad**
37,733	3,579	NASDAQ	ASEC	6.62	2.25	34½	Washington, DC	1.4	**W Jarvis Moody**
40,119	27,083	NYSE	AST	5.69	2.00	32⅞	New York, NY	49.1	**William A Marquard**
35,993	9,822	NYSE	ASC	4.11	0.80	21⅜	Salt Lake City, Utah	62.0	**Lennie S Skaggs**
67,100	754,825	NYSE	T	8.19	5.00	47⅞	New York, NY	1,044.0	**Charles L Brown**
82,693	9,227	NASDAQ	AMTR	5.62	2.56	31¼	Cleveland, Ohio	4.5	**M Brock Weir**
13,222	20,545	NYSE	AMF	2.76	1.24	22	White Plains, NY	27.6	**W Thomas York**
27,262	13,674	NYSE	AMA	5.37	1.32	26¾	Honolulu, Haw	25.2	**Henry A Walker Jr**
87,644	35,996	NYSE	AMP	3.65	1.00	51⅞	Harrisburg, Pa	18.9	**Joseph D Brenner**
45,120	7,378	NASDAQ	ABNC	3.85	1.32	20¼	Birmingham, Ala	3.5	**John W Woods**
53,884	8,985	NYSE	ASR	3.32	1.35	23½	New York, NY	8.0	**Robert T Quittmeyer**
95,579	10,800	NYSE	AD	6.60	2.41	43⅛	Chicago, Ill	11.5	**Robert H Wellington**
60,632	12,310	NYSE	AYL	4.00	1.14	20⅝	Houston, Tex	17.3	**Thomas J Barlow**
47,300	45,184	NYSE	BUD	3.80	0.99	27¾	St Louis, Mo	18.0	**August A Busch III**
13,822	54,662	NASDAQ	AAPL	0.24	none	34⅛	Cupertino, Cal	1.0	**A C Markkula**
41,354	11,086	NYSE	ARA	5.33	1.88	31⅜	Philadelphia, Pa	120.0	**William S Fishman**
67,275	66,558	NYSE	ADM	2.03	0.13	24¾	Decatur, Ill	5.6	**Dwayne O Andreas**
23,208	7,334	NASDAQ	ABKP	2.12	0.75	16½	Phoenix, Ariz	2.1	**Donald B Tostenrud**
73,978	47,814	NYSE	AZP	2.75	2.06	17⅝	Phoenix, Ariz	5.4	**Keith L Turley**
45,353	25,133	NYSE	ALG	2.92	1.28	35½	Shreveport, La	4.8	**Edward Sheffield Nelson**
39,000	55,312	NYSE	AS	4.73	1.57	38	Middletown, Ohio	58.8	**Harry Holiday Jr**
03,970	24,747	NYSE	ACK	1.94	1.10	14¼	Lancaster, Pa	22.6	**Harry A Jensen**
95,733	29,611	NYSE	AR	7.31	1.85	43¼	New York, NY	12.7	**Charles F Barber**
61,234	26,454	NYSE	ASH	6.80	2.25	40⅝	Russell, Ky	24.6	**Orin E Atkins**
94,215	13,530	NYSE	DG	3.86	1.55	24½	New York, NY	49.8	**William P Arnold**
24,923	5,248	NASDAQ	ABAN	2.98	0.86	14½	Jacksonville, Fla	2.8	**Billy J Walker**

share data adjusted for stock splits and stock dividends through May 11, 1981.

Where they rank 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net profit ($000)
36	15	10	9	**Atlantic Richfield (Dec)**	16,604,844	23,744,302	15,125,699	1,651,42
■	■	343	■	**Automatic Data Processing (June)**	356,699	454,934	770,616	38,24
113	278	491	274	**Avco (Nov)**	5,843,526	2,149,906	492,275	112,19
■	423	335	403	**Avnet (June)**	619,040	1,266,804	786,267	71,70
■	229	106	106	**Avon Products (Dec)**	1,571,400	2,569,100	2,052,721	241,30
259	■	■	■	**Bache Group (July)**	2,965,953	621,957	236,705	26,75
■	358	60	219	**Baker International (Sept)**	1,401,889	1,547,444	3,244,163	138,62
318	■	■	492	**Baldwin-United (Dec)**	2,590,876	939,571	427,808	53,65
■	■	439	494	**Bally Manufacturing (Dec)**	658,653	679,113	586,776	53,46
250	432	404	216	**Baltimore Gas & Electric (Dec)**	3,073,013	1,226,442	645,628	139,39
281	■	■	■	**Banc One (Dec)**	2,823,728	300,218	222,300	32,84
190	■	■	■	**BanCal Tri-State (Dec)**	3,851,924	397,149	117,504	16,97
310	■	■	■	**Banco Popular de Puerto Rico (Dec)**	2,630,127	280,595	67,500	23,46
147	■	■	■	**BancOhio (Dec)**	5,002,103	511,712	116,667	7,95
349	■	■	■	**Bancorp Hawaii (Dec)**	2,342,951	240,520	119,067	25,07
59	464	■	■	**Bank of New York (Dec)**	10,422,805	1,101,876	232,061	48,76
336	■	■	■	**Bank of Virginia (Dec)**	2,403,117	282,104	65,317	12,35
3	29	40	28	**BankAmerica (Dec)**	111,617,291	12,074,540	4,453,798	643,44
13	150	350	127	**Bankers Trust New York (Dec)**	34,201,630	3,693,294	761,131	213,80
159	■	■	■	**Barnett Banks of Florida (Dec)**	4,430,818	434,769	252,225	37,69
■	■	369	■	**Bausch & Lomb (Dec)**	413,392	582,681	734,886	52,33
■	394	133	234	**Baxter Travenol Laboratories (Dec)**	1,412,638	1,374,384	1,843,011	128,40
237	■	■	■	**BayBanks (Dec)**	3,207,268	307,177	108,807	26,54
180	49	129	80	**Beatrice Foods (Feb)**	3,980,279	8,290,509	1,875,451	290,14
■	■	359	■	**Beckman Instruments (June)**	534,175	549,272	750,775	36,55
■	■	257	436	**Becton, Dickinson (Sept)**	841,441	942,031	1,051,375	64,69
■	■	346	378	**Belco Petroleum (Dec)**	1,001,303	836,933	765,055	77,89
266	140	185	149	**Bendix (Sept)**	2,923,500	3,861,700	1,358,711	191,60
70	230	■	323	**[5]Beneficial Corp (Dec)**	8,299,700	2,568,900	484,553	92,80
139	61	231	252	**Bethlehem Steel (Dec)**	5,206,800	6,743,000	1,152,007	121,00
■	■	194	343	**Big Three Industries (Dec)**	815,048	659,121	1,312,602	86,60
■	377	340	331	**Black & Decker Manufacturing (Sept)**	1,183,219	1,438,299	772,981	90,05
■	389	■	423	**Blue Bell (Sept)**	868,774	1,397,760	324,680	67,91
394	■	■	■	**Boatmen's Bancshares (Dec)**	2,073,289	182,926	71,990	15,64
108	40	45	31	**Boeing (Dec)**	5,931,300	9,426,200	4,252,017	600,50
302	194	289	223	**Boise Cascade (Dec)**	2,679,190	3,018,940	908,612	136,27
307	115	347	201	**Borden (Dec)**	2,643,294	4,595,795	764,286	147,86
437	222	291	239	**Borg-Warner (Dec)**	1,901,600	2,673,300	895,698	126,10
■	497	■	■	**Borman's (Jan)**	145,535	1,000,795	9,845	3.
460	■	■	428	**Boston Edison (Dec)**	1,784,124	886,396	299,452	66,75
■	374	■	■	**Braniff International (Dec)**	1,107,368	1,452,130	100,095	–131,43
376	179	59	93	**Bristol-Myers (Dec)**	2,209,400	3,158,300	3,322,735	270,60
451	■	■	■	**Broadview Financial (Dec)**	1,858,075	166,375	21,183	–2,17
■	■	381	■	**Brown-Forman Distillers (Apr)**	461,338	423,391	693,803	50,38
■	433	■	■	**Brown Group (Oct)**	538,578	1,220,884	226,858	44,97
■	438	■	■	**Brunswick (Dec)**	924,331	1,199,709	313,317	23,92
■	■	483	■	**Bucyrus-Erie (Dec)**	625,544	511,293	502,695	48,23
386	204	479	364	**Burlington Industries (Sept)**	2,117,341	2,900,649	505,494	81,33
135	136	87	121	**Burlington Northern (Dec)**	5,267,005	3,953,640	2,396,681	222,87
189	209	93	362	**Burroughs (Dec)**	3,854,694	2,857,186	2,236,351	81,97

■ Not on 500 list

[5]Figures include unconsolidated subsidiaries.

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share Data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
,247,166	237,732	NYSE	ARC	6.64	1.80	63⅝	Los Angeles, Cal	53.4	**Robert O Anderson**
74,268	15,568	NYSE	AUD	2.49	0.70	49½	Clifton, NJ	11.9	**Frank R Lautenberg**
245,039	16,975	NYSE	AV	6.16	1.20	29	Greenwich, Conn	26.9	**James R Kerr**
79,305	15,417	NYSE	AVT	4.57	0.90	51	New York, NY	12.0	**Anthony R Hamilton**
290,100	60,153	NYSE	AVP	4.01	2.95	34⅛	New York, NY	34.3	**David W Mitchell**
30,923	10,883	NYSE	BAC	2.82	0.70	21¾	New York, NY	7.6	**Harry A Jacobs Jr**
225,005	66,718	NYSE	BKO	2.11	0.38	48⅝	Orange, Cal	21.7	**Earnest H Clark Jr**
358,526	9,863	NYSE	BDW	5.45	1.35	43⅜	Cincinnati, Ohio	10.0	**Morley P Thompson**
96,192	25,512	NYSE	BLY	2.01	0.10	23	Chicago, Ill	9.7	**Robert Mullane**
281,795	32,690	NYSE	BGE	3.64	2.47	19¾	Baltimore, Md	8.7	**Bernard C Trueschler**
50,446	6,840	NASDAQ	BONE	4.76	1.64	32½	Columbus, Ohio	3.1	**John G McCoy**
22,654	4,608	NYSE	BNC	3.64	1.07	25½	San Francisco, Cal	3.3	**Chauncey E Schmidt**
39,911	3,000	NASDAQ	BPOP	7.82	1.45	22½	San Juan, PR	3.4	**Rafael Carrion Jr**
40,509	8,046	NASDAQ	BOHI	0.99	1.40	14½	Columbus, Ohio	6.0	**Arthur D Herrmann**
39,691	7,384	NASDAQ	BNHI	3.35	0.96	16⅛	Honolulu, Haw	2.7	**Frank J Manaut**
77,429	6,678	NYSE	BK	7.49	2.79	34¾	New York, NY	7.2	**Elliott Averett**
32,880	5,332	NYSE	BKV	2.24	1.16	12¼	Richmond, Va	3.3	**Frederick Deane Jr**
,053,052	147,233	NYSE	BAM	4.38	1.41	30¼	San Francisco, Cal	82.3	**Samuel H Armacost**
323,796	24,652	NYSE	BT	8.65	1.65	30⅞	New York, NY	12.2	**Alfred Brittain III**
63,757	8,550	NYSE	BBF	4.42	1.10	29½	Jacksonville, Fla	7.0	**Charles E Rice**
63,624	11,853	NYSE	BOL	4.36	1.14	62	Rochester, NY	11.6	**Daniel G Schuman**
181,645	34,856	NYSE	BAX	3.72	0.64	52⅞	Deerfield, Ill	32.7	**Vernon R Loucks Jr**
43,322	2,981	NASDAQ	BBNK	8.82	2.65	36½	Boston, Mass	4.2	**William M Crozier Jr**
455,530	97,426	NYSE	BRY	2.81	1.28	19¼	Chicago, Ill	88.0	**James L Dutt**
57,114	20,360	NYSE	BEC	1.83	0.33	36⅞	Fullerton, Cal	12.1	**Arnold O Beckman**
103,358	20,122	NYSE	BDX	3.14	0.94	52¼	Paramus, NJ	20.6	**Wesley J Howe**
152,807	23,096	NYSE	BPC	3.35	0.53	33⅛	New York, NY	1.9	**Arthur B Belfer**
241,800	23,029	NYSE	BX	7.68	2.88	59	Southfield, Mich	78.5	**William M Agee**
419,000	22,151	NYSE	BNL	3.40	2.00	21⅞	Wilmington, Del	24.9	**Finn M W Caspersen**
443,500	43,678	NYSE	BS	2.77	1.60	26⅜	Bethlehem, Pa	89.2	**Donald H Trautlein**
153,464	42,342	NYSE	BIG	2.05	0.45	31	Houston, Tex	5.5	**Harry K Smith**
159,393	42,067	NYSE	BDK	2.14	0.76	18⅜	Towson, Md	20.8	**Francis P Lucier**
93,293	12,548	NYSE	BBL	5.40	1.80	25⅞	Greensboro, NC	35.0	**L Kimsey Mann**
22,470	3,103	NASDAQ	BOAT	5.09	1.60	23¼	St Louis, Mo	1.7	**Donald N Brandin**
910,200	96,363	NYSE	BA	6.23	1.40	44⅛	Seattle, Wash	106.3	**Thornton A Wilson**
237,249	26,626	NYSE	BCC	5.11	1.69	34⅛	Boise, Ida	32.3	**John B Fery**
277,008	29,681	NYSE	BN	4.79	1.88	25¾	New York, NY	38.4	**Eugene J Sullivan**
159,700	20,952	NYSE	BOR	5.85	2.35	42¼	Chicago, Ill	55.2	**James F Beré**
8,059	2,917	NYSE	BRF	0.01	0.20	3⅜	Detroit, Mich	8.5	**Paul Borman**
135,423	13,928	NYSE	BSE	3.75	2.72	21½	Boston, Mass	4.0	**Thomas J Galligan Jr**
-106,180	20,019	NYSE	BNF	–6.57	0.10	5	Dallas, Tex	14.2	**John J Casey**
326,800	65,960	NYSE	BMY	4.08	1.56	50⅜	New York, NY	35.0	**Richard L Gelb**
77,214	2,973	NASDAQ	BDVF	–0.73	0.44	7⅛	Cleveland, Ohio	0.7	**John E Rupert**
57,895	12,586	ASE	BFD B	3.97	1.30	55⅛	Louisville, Ky	2.0	**W L Lyons Brown Jr**
62,534	7,318	NYSE	BG	6.16	2.03	31	St Louis, Mo	25.0	**W L Hadley Griffin**
77,299	20,214	NYSE	BC	1.01	0.88	15½	Skokie, Ill	25.0	**K Brooks Abernathy**
64,365	20,414	NYSE	BY	2.36	0.88	24⅝	South Milwaukee, Wisc	5.4	**Norris K Ekstrom**
232,992	28,083	NYSE	BUR	2.90	1.40	18	Greensboro, NC	66.0	**William A Klopman**
394,274	37,230	NYSE	BNI	7.55	1.15	64⅜	St Paul, Minn	56.7	**Richard M Bressler**
347,679	41,510	NYSE	BGH	1.99	2.50	53⅞	Detroit, Mich	57.3	**W Michael Blumenthal**

All share data adjusted for stock splits and stock dividends through May 11, 1981

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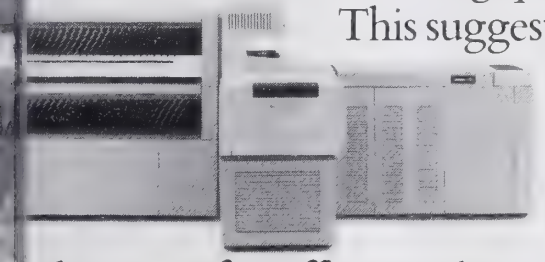
MOZART HAS IMPROVED PRODUCTIVITY IN HEN HOUSES. NOW, WHAT CAN BE DONE FOR OFFICES?

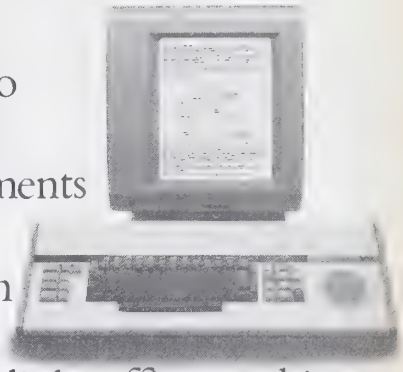
It's been said that if you assemble an audience of chickens, sit them on nests d have them listen to string quartets, productivity will increase.



This suggests many possibilities for poultry farms, but not too many for offices.

Which is exactly our point. It's ironic that so much effort has been expended helping chickens become more productive, while oductivity for office workers and executives continues to decline.

At Xerox, helping people become more productive is our business. And s been since the first Xerox copier revolutionized the way businesses produce information.



Today we make machines that not only copy, but also tomatically collate, reduce, and even staple sets together.

Machines that let you create, store and retrieve documents uch faster than humanly possible.

Machines that print out computer information much ter than ordinary computer printers.

And a special cable—called the Ethernet cable—that links office machines o a single network. So that people throughout your office can have instant cess to the same information.

We even supply productivity experts to help your people make the best possible use of it all.

In fact, Xerox people, machines and services can literally save businesses millions of dollars in wasted time and effort.

That may not be Mozart. But in its own way, it can be just as enriching.

XEROX

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
■	388	278	195	**Cabot (Sept)**	1,160,753	1,403,743	961,482	152,7
196	■	■	■	**California First Bank (Dec)**	3,620,903	381,567	74,186	18,2
■	■	134	377	**Cameron Iron Works (June)**	810,786	697,352	1,831,781	78,2
489	232	266	226	**Campbell Soup (July)**	1,627,565	2,560,569	1,003,749	134,9
■	460	■	■	**Campbell Taggart (Dec)**	443,601	1,113,147	257,959	36,2
■	■	354	408	**Capital Cities Communications (Dec)**	519,958	472,108	757,993	70,7
316	■	486	334	**Capital Holding (Dec)**	2,605,295	548,693	495,385	89,5
499	173	264	192	**Carnation (Dec)**	1,590,628	3,236,222	1,012,848	154,7
172	475	285	183	**Carolina Power & Light (Dec)**	4,241,607	1,075,604	928,145	161,3
487	224	■	460	**Carter Hawley Hale Stores (Jan)**	1,651,368	2,632,921	484,100	58,0
■	328	■	■	**Castle & Cooke (Dec)**	1,264,086	1,733,501	292,710	32,0
106	44	35	34	**Caterpillar Tractor (Dec)**	6,098,210	8,597,787	5,016,594	564,7
■	■	234	417	**CBI Industries (Dec)**	780,267	682,261	1,144,704	68,4
358	135	192	144	**CBS (Dec)**	2,301,215	3,962,882	1,327,880	192,9
240	■	■	■	**CBT (Dec)**	3,174,794	330,240	91,619	20,3
309	165	333	250	**Celanese (Dec)**	2,634,000	3,348,000	787,270	122,0
■	480	450	■	**Centex (Mar)**	896,415	1,057,362	559,215	33,6
173	329	263	154	**Central & South West (Dec)**	4,219,589	1,731,327	1,026,665	185,0
365	■	■	■	**Central Bancorporation (Dec)**	2,264,377	221,919	95,685	17,7
397	■	■	■	**Central Bancshares of the South (Dec)**	2,063,944	212,403	79,432	19,0
433	■	■	■	**Central Fidelity Banks (Dec)**	1,909,336	192,832	64,705	14,9
■	491	250	363	**Central Louisiana Energy (Dec)**	1,042,139	1,013,037	1,094,256	81,6
■	322	■	■	**Central Soya (Aug)**	658,540	1,744,445	237,469	34,7
444	■	407	325	**Central Telephone & Utilities (Dec)**	1,889,581	893,628	641,288	92,5
200	■	■	■	**Centran (Dec)**	3,565,103	351,468	105,757	24,0
■	499	498	■	**Cessna Aircraft (Sept)**	583,026	1,000,061	485,310	28,1
224	148	189	180	**Champion International (Dec)**	3,339,518	3,752,718	1,335,863	164,0
470	117	■	■	**Charter (Dec)**	1,746,260	4,518,114	421,044	50,2
4	55	161	60	**Chase Manhattan (Dec)**	76,189,567	8,002,583	1,563,678	354,1
10	120	409	167	**Chemical New York (Dec)**	41,342,220	4,299,897	639,205	173,4
■	393	287	305	**Chesebrough-Pond's (Dec)**	921,468	1,380,396	913,078	100,2
■	367	■	■	**Chromalloy American (Dec)**	979,076	1,518,004	301,172	44,4
93	42	■	■	**Chrysler (Dec)**	6,617,800	9,225,300	326,493	–1,709,7
292	413	496	286	**Chubb (Dec)**	2,745,528	1,291,850	485,890	105,4
367	■	■	332	**Cincinnati Gas & Electric (Dec)**	2,262,268	955,035	479,994	89,9
■	■	370	386	**Cincinnati Milacron (Dec)**	626,696	816,402	733,883	75,6
2	19	64	40	**Citicorp (Dec)**	114,920,000	14,211,000	2,973,899	499,0
131	57	49	42	**Cities Service (Dec)**	5,358,000	7,786,300	3,977,002	477,5
164	■	■	■	**[7]Citizens & Southern Georgia (Dec)**	4,340,720	460,348	248,607	35,5
412	■	■	■	**Citizens Fidelity (Dec)**	1,992,892	196,865	136,291	17,6
351	■	■	■	**City Federal Savings & Loan Assn (Dec)**	2,337,297	219,813	33,000	3,3
74	82	397	288	**City Investing (Dec)**	7,688,809	5,386,178	669,037	104,5
■	359	■	493	**Clark Equipment (Dec)**	1,042,330	1,539,299	407,232	53,5
■	349	■	■	**Clark Oil & Refining (Dec)**	486,873	1,623,208	394,540	43,9
249	■	393	240	**Cleveland Electric Illuminating (Dec)**	3,094,462	893,566	676,977	125,3
176	92	268	279	**Coastal Corp (Dec)**	4,112,631	5,115,368	996,599	109,5
215	74	48	48	**Coca-Cola (Dec)**	3,405,958	5,912,595	4,124,783	422,1
319	91	219	168	**Colgate-Palmolive (Dec)**	2,578,134	5,130,464	1,198,241	173,2
■	■	■	497	**Colonial Penn Group (Dec)**	1,035,183	799,757	262,015	53,1
■	276	434	307	**Colt Industries (Dec)**	1,438,153	2,165,602	590,965	97,7

■Not on 500 list

[7]Formerly Citizens & Southern National Bank.

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
164,249	31,524	NYSE	CBT	4.88	0.73	30½	Boston, Mass	7.6	**Robert A Charpie**
33,697	5,762	NASDAQ	CFBK	3.17	1.08	12⅞	San Francisco, Cal	3.7	**Yasushi Sumiya**
112,429	30,403	NYSE	CIW	2.61	0.28	60¼	Houston, Tex	9.7	**Myron A Wright**
209,509	32,379	NYSE	CPB	4.08	1.90	31	Camden, NJ	38.0	**R Gordon McGovern**
74,898	11,095	NYSE	CTI	3.27	1.17	23¼	Dallas, Tex	23.0	**C B Lane**
86,589	12,902	NYSE	CCB	5.38	0.20	58¾	New York, NY	6.3	**Thomas S Murphy**
202,545	27,909	NYSE	CPH	3.20	1.08	17¾	Louisville, Ky	6.6	**Thomas C Simons**
203,011	36,999	NYSE	CMK	4.15	1.66	27⅜	Los Angeles, Cal	22.4	**H Everett Olson**
323,619	51,208	NYSE	CPL	2.73	2.16	18⅛	Raleigh, NC	6.4	**Sherwood H Smith Jr**
132,066	26,526	NYSE	CHH	2.11	1.15	18¼	Los Angeles, Cal	55.0	**Philip M Hawley**
85,560	25,453	NYSE	CKE	1.12	0.80	11½	Honolulu, Haw	43.0	**Donald J Kirchhoff**
955,247	86,493	NYSE	CAT	6.53	2.33	58	Peoria, Ill	86.4	**Lee L Morgan**
118,231	17,886	NYSE	CBH	3.81	1.35	64	Oak Brook, Ill	11.0	**Marvin G Mitchell**
262,817	27,882	NYSE	CBS	6.92	2.80	47⅝	New York, NY	35.6	**Thomas H Wyman**
34,738	3,558	NASDAQ	CBCT	5.96	1.88	25¾	Hartford, Conn	3.7	**Walter J Connolly Jr**
320,000	14,314	NYSE	CZ	8.20	3.50	55	New York, NY	32.8	**John D Macomber**
79,709	13,158	NYSE	CTX	2.90	0.25	42½	Dallas, Tex	7.3	**[6]Frank M Crossen**
358,974	79,741	NYSE	CSR	2.45	1.50	12⅞	Dallas, Tex	8.3	**Durwood Chalker**
30,306	5,243	NASDAQ	CBAN	3.38	1.90	18¼	Cincinnati, Ohio	2.6	**Oliver W Birckhead**
31,766	6,689	NASDAQ	CBSS	2.84	0.80	11⅞	Birmingham, Ala	2.2	**Harry B Brock Jr**
23,187	5,282	NASDAQ	CFBS	2.73	1.00	12¼	Richmond, Va	2.6	**Carroll L Saine**
139,601	21,456	NYSE	CEL	3.95	1.00	51	Lafayette, La	1.3	**Gale L Galloway**
66,411	15,198	NYSE	CSY	2.38	0.84	15⅝	Fort Wayne, Ind	10.5	**Douglas G Fleming**
253,111	26,175	NYSE	CTU	3.51	2.00	24½	Chicago, Ill	13.1	**Robert P Reuss**
39,362	3,881	NASDAQ	CENB	6.21	2.40	27¼	Cleveland, Ohio	2.6	**John A Gelbach**
45,361	18,847	NYSE	CEA	1.51	0.50	25¾	Wichita, Kan	18.0	**Russell W Meyer**
405,092	54,525	NYSE	CHA	2.94	1.42	24½	Stamford, Conn	41.9	**Andrew C Sigler**
103,364	21,592	NYSE	CHR	1.59	0.85	19½	Jacksonville, Fla	10.5	**Raymond K Mason**
608,791	32,492	NYSE	CMB	10.15	2.80	48⅛	New York, NY	33.5	**Willard C Butcher**
290,825	14,996	NYSE	CHL	11.05	3.40	42⅝	New York, NY	17.9	**Donald C Platten**
129,114	32,465	NYSE	CBM	3.10	1.28	28⅛	Greenwich, Conn	20.6	**Ralph E Ward**
78,820	14,008	NYSE	CRO	2.84	1.10	21½	Clayton, Mo	23.9	**Frank P Nykiel**
102,700	66,973	NYSE	C	–26.00	none	4⅞	Highland Park, Mich	92.6	**Lee A Iacocca**
165,882	12,301	NASDAQ	CHUB	8.53	2.40	39½	New York, NY	7.6	**Henry U Harder**
119,338	31,475	NYSE	CIN	2.25	2.02	15¼	Cincinnati, Ohio	5.0	**William H Dickhoner**
103,230	22,581	NYSE	CMZ	3.35	0.65	32½	Cincinnati, Ohio	13.8	**James A D Geier**
883,000	122,635	NYSE	FNC	4.02	1.39	24¼	New York, NY	53.7	**Walter B Wriston**
001,600	83,288	NYSE	CS	5.73	1.53	47¾	Tulsa, Okla	18.9	**Charles J Waidelich**
65,570	28,824	NASDAQ	CSGA	1.23	0.32	8⅝	Atlanta, Ga	5.6	**Bennett A Brown**
30,660	7,468	NASDAQ	CFDY	2.37	0.78	18¼	Louisville, Ky	1.8	**J David Grissom**
114,762	3,000	NASDAQ	CTYF	1.03	0.30	11	Elizabeth, NJ	1.2	**Gilbert G Roessner**
446,375	31,118	NYSE	CNV	3.42	1.43	21½	New York, NY	67.3	**George T Scharffenberger**
74,609	12,726	NYSE	CKL	4.18	2.20	32	Buchanan, Mich	17.0	**Bert E Phillips**
59,566	14,282	NYSE	CKO	3.03	0.80	27⅝	Milwaukee, Wisc	7.2	**Robert G Reed III**
181,116	46,289	NYSE	CVX	2.26	2.00	14⅝	Cleveland, Ohio	5.0	**Robert M Ginn**
290,516	21,490	NYSE	CGP	4.63	0.50	46⅜	Houston, Tex	6.5	**Oscar S Wyatt Jr**
627,103	123,589	NYSE	KO	3.42	2.16	33⅜	Atlanta, Ga	41.1	**Robert C Goizueta**
270,578	81,931	NYSE	CL	2.12	1.09	14⅝	New York, NY	48.2	**Keith Crane**
170,736	16,124	NYSE	CPG	3.29	1.40	16¼	Philadelphia, Pa	4.5	**John J MacWilliams**
155,675	13,060	NYSE	COT	7.38	2.90	45¼	New York, NY	31.3	**George A Strichman**

[1] share data adjusted for stock splits and stock dividends through May 11, 1981
[6] Office jointly held with Paul R. Seegers.

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
188	154	190	170	**Columbia Gas System (Dec)**	3,861,861	3,636,507	1,333,523	170,1
■	■	■	313	**[8]Combined International (Dec)**	1,286,896	756,989	477,796	95,0
339	180	163	263	**Combustion Engineering (Dec)**	2,393,284	3,146,455	1,536,480	116,0
288	■	■	■	**Commerce Bancshares (Dec)**	2,765,231	279,101	108,091	27,
■	425	■	■	**Commercial Metals (Aug)**	219,504	1,261,572	75,180	18,9
53	167	114	56	**Commonwealth Edison (Dec)**	11,134,874	3,324,043	1,962,938	382,0
■	415	■	■	**Commonwealth Oil Refining (Dec)**	613,204	1,284,442	58,125	–14,9
■	■	252	■	**Computervision (Dec)**	167,479	224,207	1,077,332	23,9
35	85	123	70	**[9]Connecticut General (Dec)**	16,741,582	5,279,438	1,921,799	316,0
54	17	21	15	**Conoco (Dec)**	11,036,275	18,301,483	7,049,452	1,026,1
76	137	158	66	**Consolidated Edison (Dec)**	7,459,681	3,947,165	1,566,876	334,0
366	83	382	237	**Consolidated Foods (June)**	2,263,443	5,342,860	692,280	127,0
■	346	■	■	**Consolidated Freightways (Dec)**	784,060	1,653,604	322,298	41,8
296	238	247	256	**Consolidated Natural Gas (Dec)**	2,735,230	2,503,054	1,102,735	118,4
■	■	■	500	**Consolidated Papers (Dec)**	386,899	510,289	346,655	52,5
101	255	279	119	**Consumers Power (Dec)**	6,276,596	2,303,983	958,165	223,7
441	■	■	■	**Continental Bank (Dec)**	1,892,955	198,075	103,602	19,8
72	162	209	146	**Continental Corp (Dec)**	8,215,970	3,419,046	1,224,609	192,5
133	76	254	118	**[5]Continental Group (Dec)**	5,321,400	5,656,900	1,070,557	224,2
9	113	207	116	**Continental Illinois (Dec)**	42,089,408	4,716,150	1,229,313	225,9
236	421	302	246	**Continental Telephone (Dec)**	3,207,552	1,267,724	877,086	122,9
94	142	196	213	**[5]Control Data (Dec)**	6,567,700	3,808,500	1,302,629	141,0
493	309	152	204	**Cooper Industries (Dec)**	1,613,375	1,842,173	1,623,573	146,6
■	■	457	434	**Adolph Coors (Dec)**	894,385	887,897	551,439	64,9
■	363	251	267	**Corning Glass Works (Dec)**	1,499,624	1,529,670	1,091,913	114,7
■	■	367	469	**Cox Broadcasting (Dec)**	461,345	309,232	739,946	56,3
353	130	166	139	**CPC International (Dec)**	2,328,261	4,120,331	1,502,424	197,4
■	365	■	■	**Crane (Dec)**	1,004,117	1,527,600	453,691	42,5
■	■	401	■	**Cray Research (Dec)**	104,508	60,748	659,115	10,9
29	294	477	311	**Crocker National (Dec)**	19,062,665	2,006,306	509,318	95,7
■	■	389	■	**Crouse-Hinds (Dec)**	401,174	753,566	680,526	42,3
■	422	■	■	**Crown Central Petroleum (Dec)**	546,440	1,266,898	169,476	19,1
■	372	■	396	**Crown Cork & Seal (Dec)**	873,056	1,459,790	413,424	73,1
343	187	205	308	**Crown Zellerbach (Dec)**	2,372,700	3,066,600	1,241,067	97,4
186	298	338	184	**Crum & Forster (Dec)**	3,896,211	1,931,833	782,061	161,3
75	104	117	86	**CSX (Dec)**	7,523,101	4,841,350	1,950,922	281,6
382	■	■	■	**Cullen/Frost Bankers (Dec)**	2,139,153	215,059	107,009	13,8
■	343	■	■	**Cummins Engine (Dec)**	1,117,897	1,666,642	253,556	–10,9
426	237	352	312	**Dana (Aug)**	1,935,460	2,524,008	758,257	95,7
152	41	89	55	**Dart & Kraft (Dec)**	4,650,300	9,411,500	2,368,140	383,1
■	■	392	483	**Data General (Sept)**	642,523	653,887	678,513	54,6
■	■	230	■	**Datapoint (July)**	223,623	318,826	1,154,579	33,4
480	■	■	435	**Dayton Power & Light (Dec)**	1,685,044	650,000	326,610	64,7
381	132	258	203	**Dayton-Hudson (Jan)**	2,155,234	4,033,536	1,043,569	146,7
448	■	■	■	**Dean Witter Reynolds Organization (Aug)**	1,869,939	706,958	243,501	36,0
140	79	62	114	**Deere (Oct)**	5,202,424	5,469,825	3,005,136	228,2
■	■	398	■	**DEKALB AgResearch (Aug)**	803,011	545,232	666,230	43,5
■	■	423	■	**Delhi International Oil (Dec)**	84,507	27,138	614,738	4,78
402	200	225	320	**Delta Air Lines (June)**	2,042,539	2,956,960	1,172,979	93,1
■	■	426	■	**Deluxe Check Printers (Dec)**	259,009	428,488	610,542	44,4

■ Not on 500 list.

[5]Figures include unconsolidated subsidiaries.
[8]Formerly Combined Insurance Company of America
[9]Formerly Connecticut General Insurance

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
93,161	33,131	NYSE	CG	5.02	2.56	40¼	Wilmington, Del	11.4	**W Frederick Laird**
83,488	27,109	NYSE	PMA	3.53	1.45	17⅝	Chicago, Ill	3.7	**Clement Stone**
94,757	32,954	NYSE	CSP	3.56	1.30	46⅝	Stamford, Conn	46.3	**Arthur J Santry Jr**
44,874	4,858	NASDAQ	CBSH	5.62	1.60	22¼	Kansas City, Mo	3.2	**James M Kemper Jr**
28,678	4,296	ASE	CMC	4.13	0.40	17½	Dallas, Tex	2.7	**Stanley A Rabin**
91,706	108,300	NYSE	CWE	2.97	2.60	18⅛	Chicago, Ill	16.4	**James J O'Connor**
2,499	15,000	PAC	QCWO	−1.10	none	3⅞	San Antonio, Tex	1.4	**C Howard Hardesty Jr**
31,077	13,383	NYSE	CVN	1.80	none	80½	Bedford, Mass	3.0	**Martin Allen**
53,217	41,329	NYSE	CGN	7.66	1.47	46½	Hartford, Conn	14.2	**Robert D Kilpatrick**
32,048	107,831	NYSE	CLL	9.52	2.13	65⅜	Stamford, Conn	41.0	**Ralph E Bailey**
31,915	62,990	NYSE	ED	4.67	2.68	24⅞	New York, NY	23.2	**Charles F Luce**
36,896	28,845	NYSE	CFD	4.12	1.76	24	Chicago, Ill	88.6	**John H Bryan Jr**
01,914	13,155	NYSE	CNF	3.20	1.38	24½	Palo Alto, Cal	23.4	**Raymond F O'Brien**
78,304	19,780	NYSE	CNG	5.73	3.24	55¾	Pittsburgh, Pa	7.5	**George J Tankersley**
79,295	10,749	NASDAQ	CPER	4.91	1.95	32¼	Wisconsin Rapids, Wisc	5.3	**George W Mead**
05,825	57,634	NYSE	CMS	3.08	2.36	16⅝	Jackson, Mich	12.6	**John D Selby**
33,061	4,456	NASDAQ	CBTN	4.46	1.79	23¼	Norristown, Pa	1.6	**Roy T Peraino**
55,328	50,761	NYSE	CIC	3.74	2.20	24⅛	New York, NY	22.9	**John B Ricker Jr**
40,500	32,814	NYSE	CCC	6.09	2.40	32⅝	Stamford, Conn	58.3	**S Bruce Smart Jr**
30,757	39,338	NYSE	CIL	5.75	1.65	31¼	Chicago, Ill	12.3	**Roger E Anderson**
75,124	55,688	NYSE	CTC	2.13	1.38	15¾	Atlanta, Ga	19.5	**Charles Wohlstetter**
98,700	18,477	NYSE	CDA	7.90	0.55	70½	Minneapolis, Minn	57.1	**William C Norris**
94,024	30,206	NYSE	CBE	4.26	1.08	53¾	Houston, Tex	24.8	**Robert Cizik**
33,298	35,012	NASDAQ	ACCOB	1.86	0.28	15¾	Golden, Colo	9.5	**William K Coors**
48,753	18,313	NYSE	GLW	6.26	2.17	59⅝	Corning, NY	28.8	**Amory Houghton Jr**
92,818	13,515	NYSE	COX	4.17	0.45	54¾	Atlanta, Ga	4.2	**Clifford M Kirtland Jr**
80,658	23,848	NYSE	CPC	8.28	3.30	63	Englewood Cliffs, NJ	40.5	**James W McKee Jr**
27,457	10,341	NYSE	CR	4.12	1.57	43⅞	New York, NY	19.3	**Thomas M Evans**
21,643	13,590	NYSE	CYR	0.85	none	48½	Mendota Heights, Minn	0.7	**John A Rollwagen**
03,650	13,719	NYSE	CKN	6.76	2.15	37⅛	San Francisco, Cal	15.7	**Thomas R Wilcox**
57,179	17,676	NYSE	CHI	2.50	0.94	38½	Syracuse, NY	12.5	**Chris J Witting**
61,089	5,844	ASE	CNP A	2.82	1.46	29	Baltimore, Md	1.5	**Henry A Rosenberg Jr**
21,950	14,570	NYSE	CCK	4.98	none	28⅜	Philadelphia, Pa	15.2	**John F Connelly**
73,500	25,589	NYSE	ZB	3.46	2.20	48½	San Francisco, Cal	31.1	**Charles R Dahl**
64,897	28,056	NYSE	CMF	5.74	1.35	27⅞	New York, NY	9.7	**B P Russell**
44,939	40,857	NYSE	CSX	7.13	2.50	47¾	Richmond, Va	70.0	**Prime F Osborn III**
4,106	4,291	NASDAQ	CFBI	2.44	0.81	24⅞	San Antonio, Tex	1.9	**Thomas C Frost**
11,717	8,382	NYSE	CUM	−1.31	1.80	30¼	Columbus, Ind	22.5	**Henry B Schacht**
55,626	35,474	NYSE	DCN	2.78	1.59	21⅜	Toledo, Ohio	37.3	**Gerald B Mitchell**
61,100	54,440	NYSE	DKI	7.03	0.80	43½	Glenview, Ill	80.0	**John M Richman**
5,908	10,300	NYSE	DGN	5.20	none	65⅞	Westboro, Mass	13.9	**Edson D deCastro**
63,668	19,364	NYSE	DPT	1.91	none	59⅝	San Antonio, Tex	5.5	**Harold E O'Kelley**
2,795	27,504	NYSE	DPL	1.85	1.74	11⅞	Dayton, Ohio	3.9	**Robert E Frazer**
4,769	23,853	NYSE	DH	6.16	1.85	43¾	Minneapolis, Minn	40.0	**William A Andres**
3,797	10,199	NYSE	DWR	2.85	0.64	23⅞	San Francisco, Cal	9.3	**Andrew J Melton Jr**
9,483	62,607	NYSE	DE	3.72	1.85	48	Moline, Ill	61.0	**William A Hewitt**
5,869	12,874	NASDAQ	DKLBB	3.60	0.72	51¾	DeKalb, Ill	4.6	**Thomas H Roberts Jr**
8,211	7,566	ASE	DLH	0.62	0.10	81¼	Dallas, Tex	0.3	**Norman C Miller**
0,683	19,881	NYSE	DAL	4.69	1.20	59	Atlanta, Ga	35.0	**David C Garrett Jr**
7,768	11,412	NYSE	DLX	3.90	1.50	53½	St Paul, Minn	9.5	**Eugene R Olson**

hare data adjusted for stock splits and stock dividends through May 11, 1981.

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
484	■	■	■	**Deposit Guaranty (Dec)**	1,668,809	162,528	75,378	12,8
117	312	286	151	**Detroit Edison (Dec)**	5,741,686	1,812,514	913,859	188,5
121	■	■	■	**DETROITBANK (Dec)**	5,667,781	528,066	170,142	34,7
■	416	485	■	**Diamond International (Dec)**	943,305	1,282,604	497,636	40,9
286	181	112	137	**Diamond Shamrock (Dec)**	2,793,048	3,143,040	1,989,136	201,2
303	246	42	102	**Digital Equipment (June)**	2,666,068	2,368,045	4,363,445	249,8
■	399	■	■	**Dillingham (Dec)**	794,016	1,361,935	235,026	38,1
■	285	■	■	**Dillon Companies (June)**	434,943	2,077,265	259,853	27,3
■	■	145	224	**Walt Disney Productions (Sept)**	1,347,407	914,505	1,658,860	135,1
323	■	■	■	**Dominion Bankshares (Dec)**	2,525,876	257,124	124,699	20,2
206	■	■	■	**Donaldson, Lufkin & Jenrette (Dec)**	3,474,451	485,099	76,392	8,7
■	461	400	414	**R R Donnelley & Sons (Dec)**	771,749	1,111,258	660,451	68,9
■	■	482	■	**Dorchester Gas (Aug)**	336,294	608,760	504,000	34,9
■	■	241	395	**Dover (Dec)**	474,945	835,167	1,121,845	73,2
48	33	28	19	**Dow Chemical (Dec)**	11,538,000	10,626,000	5,869,302	805,0
■	■	282	456	**Dow Jones (Dec)**	396,604	530,700	950,197	58,8
■	459	■	■	**Dravo (Dec)**	684,742	1,113,925	396,958	21,5
270	133	47	96	**Dresser Industries (Oct)**	2,897,300	4,016,300	4,184,235	261,1
99	340	160	73	**Duke Power (Dec)**	6,328,174	1,682,822	1,564,079	311,0
■	446	156	297	**Dun & Bradstreet (Dec)**	770,137	1,176,127	1,594,974	102,7
65	21	25	22	**E I du Pont de Nemours (Dec)**	9,560,000	13,652,000	6,155,268	716,0
330	■	478	321	**Duquesne Light (Dec)**	2,443,463	689,465	507,096	92,9
283	161	■	■	**Eastern Air Lines (Dec)**	2,816,177	3,452,542	182,399	–42,0
■	496	399	482	**Eastern Gas & Fuel Associates (Dec)**	1,020,462	1,002,727	661,518	54,7
68	39	14	13	**Eastman Kodak (Dec)**	8,746,926	9,734,303	11,258,069	1,153,5
356	176	349	265	**Eaton (Dec)**	2,302,460	3,176,466	761,663	115,7
■	357	337	413	**Jack Eckerd (July)**	549,492	1,547,753	782,199	69,2
■	■	430	■	**EG&G (Dec)**	198,846	613,093	600,062	26,3
257	155	216	■	**El Paso (Dec)**	2,990,737	3,543,436	1,202,834	–302,9
429	186	90	109	**Emerson Electric (Sept)**	1,929,417	3,066,841	2,319,356	237,7
■	313	■	426	**Emhart (Dec)**	977,000	1,802,900	358,514	67,0
■	■	303	■	**Energy Reserves Group (Dec)**	256,001	147,218	875,358	13,9
100	8	51	36	**Engelhard Minerals & Chemicals (Dec)**	6,300,756	26,569,974	3,763,494	532,7
379	219	144	198	**ENSERCH (Dec)**	2,187,288	2,694,933	1,689,614	150,1
392	■	■	■	**[5]Entex (June)**	2,091,960	970,255	324,151	35,7
274	■	■	■	**Equimark (Dec)**	2,862,796	289,963	38,349	9,5
396	■	■	■	**Equitable Bancorporation (Dec)**	2,066,087	213,285	52,318	9,3
472	■	■	■	**Equitable of Iowa (Dec)**	1,743,486	403,332	99,776	19,0
454	202	462	43	**Esmark (Oct)**	1,853,895	2,924,887	539,334	471,8
■	324	470	333	**Ethyl (Dec)**	1,208,177	1,740,627	521,912	89,6
■	381	■	■	**Evans Products (Dec)**	887,866	1,423,464	251,081	41,3
■	490	■	■	**Ex-Cell-O (Nov)**	705,410	1,020,677	386,938	50,4
6	1	3	2	**Exxon (Dec)**	56,576,558	103,142,993	34,836,531	5,650,0
■	■	■	485	**Fairchild Industries (Dec)**	808,294	906,230	418,503	54,5
■	■	284	283	**Farmers Group (Dec)**	1,412,062	480,448	945,632	106,8
■	477	■	■	**Fed-Mart (Aug)**	313,446	1,061,503	45,659	–6,3
■	■	326	■	**Federal Express (May)**	398,127	415,379	807,828	38,7
5	93	377	■	**Federal National Mortgage Assoc (Dec)**	58,470,003	5,081,466	701,919	14,2
199	67	181	90	**Federated Department Stores (Jan)**	3,575,513	6,300,686	1,379,799	277,7
■	■	418	■	**Felmont Oil (Dec)**	120,910	56,424	623,040	13,6

■ Not on 500 list.

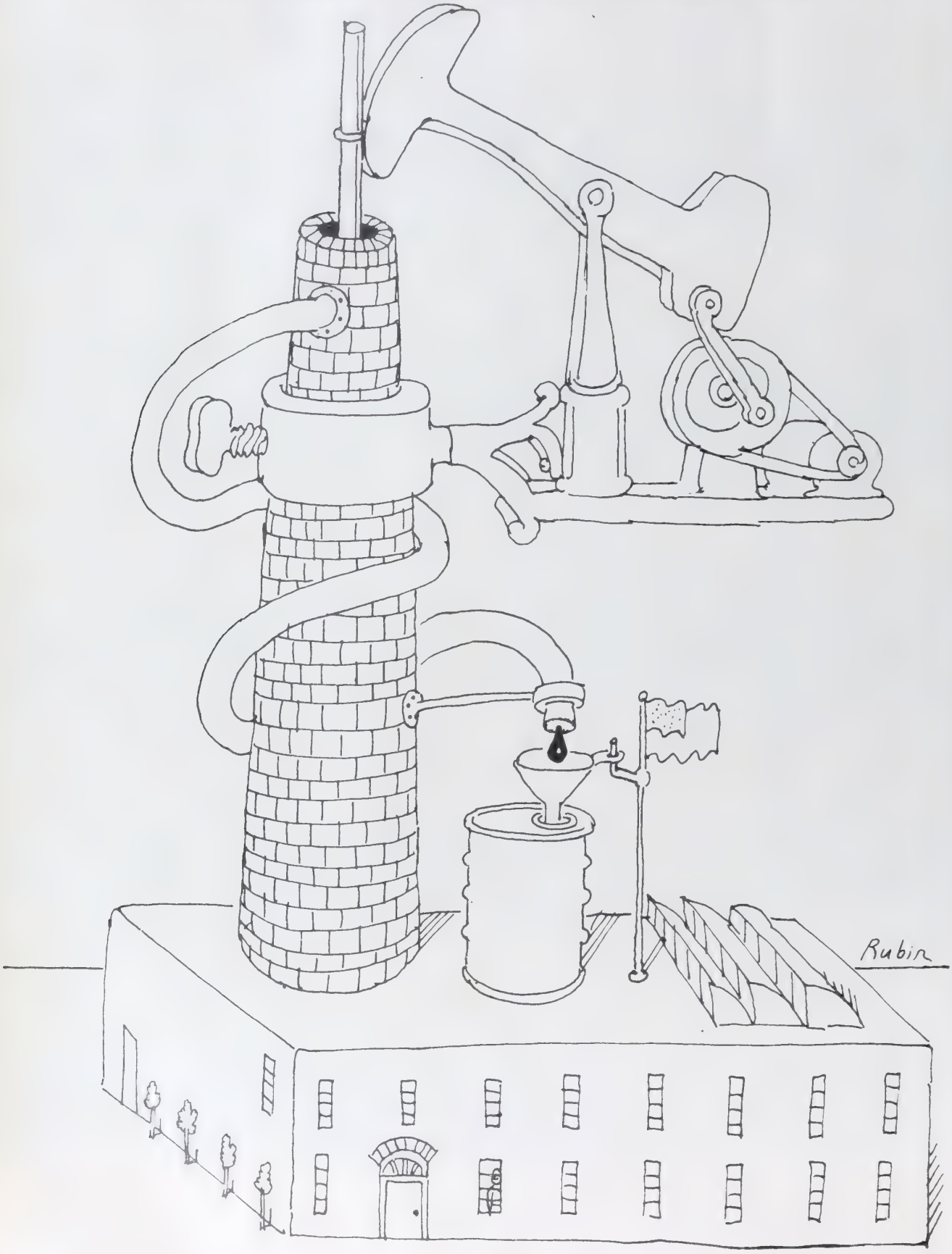
[5]Figures include unconsolidated subsidiaries.

A SUMMARY OF THE 500's RANKINGS

Cash flow $000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
22,012	2,956	NASDAQ	DEPS	4.35	1.50	25½	Jackson, Miss	1.5	**Warren A Hood**
31,017	84,033	NYSE	DTE	1.75	1.60	10⅞	Detroit, Mich	10.8	**William G Meese**
47,169	8,102	NASDAQ	DBNK	4.19	1.85	21	Detroit, Mich	4.1	**Rodkey Craighead**
92,485	15,195	NYSE	DN	2.68	2.20	32¾	New York, NY	18.1	**William J Koslo**
09,952	56,230	NYSE	DIA	3.66	1.62	35⅜	Dallas, Tex	12.7	**William H Bricker**
57,285	45,931	NYSE	DEC	5.45	none	95	Maynard, Mass	50.0	**Kenneth H Olsen**
66,977	13,057	NYSE	DHM	2.80	0.65	18	Honolulu, Haw	12.9	**Herbert C Cornuelle**
53,786	16,901	NYSE	DLL	1.62	1.08	15⅜	Hutchinson, Kan	24.0	**Roy E Dillon, Jr**
86,346	32,368	NYSE	DIS	4.16	0.72	51¼	Burbank, Cal	24.0	**E Cardon Walker**
32,125	8,177	NASDAQ	DMBK	2.49	1.00	15¼	Roanoke, Va	3.1	**Byron A Hicks**
9,915	8,857	NYSE	DLJ	0.97	0.15	8⅝	New York, NY	2.0	**Richard H Jenrette**
27,755	18,670	NYSE	DNY	3.70	1.14	35⅜	Chicago, Ill	14.8	**Charles W Lake Jr**
54,443	17,920	ASE	DGS	1.92	0.10	28⅛	Dallas, Tex	1.0	**George S Rooker**
91,463	17,878	NYSE	DOV	4.10	0.95	62¾	New York, NY	12.6	**Gary L Roubos**
97,000	182,702	NYSE	DOW	4.42	1.60	32⅛	Midland, Mich	56.8	**Paul F Oreffice**
73,673	15,577	NYSE	DJ	3.79	1.60	61	New York, NY	5.1	**Warren H Phillips**
53,785	12,470	NYSE	DRV	1.69	0.91	31⅞	Pittsburgh, Pa	14.2	**Robert Dickey III**
96,100	78,210	NYSE	DI	3.35	0.58	53½	Dallas, Tex	52.8	**John V James**
22,032	86,294	NYSE	DUK	3.08	1.95	18⅛	Charlotte, NC	19.6	**Carl Horn Jr**
39,141	27,982	NYSE	DNB	3.68	1.97	57	New York, NY	24.7	**Harrington Drake**
34,000	146,554	NYSE	DD	4.83	2.75	42	Wilmington, Del	135.9	**Edward G Jefferson**
51,744	40,166	NYSE	DQU	1.82	1.80	12⅝	Pittsburgh, Pa	4.5	**John M Arthur**
73,394	24,732	NYSE	EAL	–1.96	none	7⅜	Miami, Fla	40.0	**Frank Borman**
11,007	22,616	NYSE	EFU	2.45	0.96	29¼	Boston, Mass	9.5	**William J Pruyn**
33,137	161,406	NYSE	EK	7.15	3.05	69¾	Rochester, NY	129.5	**Walter A Fallon**
20,622	26,725	NYSE	ETN	4.35	1.72	28½	Cleveland, Ohio	54.1	**E Mandell de Windt**
90,238	23,703	NYSE	ECK	2.92	1.05	33	Largo, Fla	24.6	**Stewart Turley**
33,014	13,755	NYSE	EGG	1.93	0.40	43⅝	Wellesley, Mass	17.0	**Bernard J O'Keefe**
55,965	47,637	NYSE	ELG	–6.40	1.48	25¼	Houston, Tex	8.3	**Travis H Petty**
19,420	63,544	NYSE	EMR	3.72	1.64	36½	St Louis, Mo	53.8	**Charles F Knight**
96,800	12,153	NYSE	EMH	5.47	2.40	29½	Farmington, Conn	33.5	**T Mitchell Ford**
41,911	48,631	NASDAQ	ERGS	0.29	none	18	Wichita, Kan	0.6	**Richard W Volk**
21,531	68,272	NYSE	ENG	7.85	1.11	55⅛	New York, NY	13.1	**Milton F Rosenthal**
36,419	33,708	NYSE	ENS	4.23	1.68	50⅛	Dallas, Tex	20.2	**William C McCord**
59,396	21,083	NYSE	ETX	1.70	0.84	15⅜	Houston, Tex	4.8	**Jackson C Hinds**
16,448	4,321	NYSE	EQK	1.80	0.96	8⅞	Pittsburgh, Pa	2.2	**William E Bierer**
19,449	4,146	NASDAQ	EBNC	2.25	0.70	12⅝	Baltimore, Md	2.7	**Owen Daly II**
71,446	6,236	NASDAQ	EQICB	3.06	1.23	16	Des Moines, Iowa	5.1	**Kenneth R Austin**
38,994	10,081	NYSE	ESM	21.90	1.84	53½	Chicago, Ill	30.5	**Donald P Kelly**
76,523	19,241	NYSE	EY	4.49	1.50	27⅛	Richmond, Va	15.9	**Floyd D Gottwald Jr**
42,369	12,323	NYSE	EVY	2.96	1.60	20⅜	Portland, Ore	18.0	**Monford A Orloff**
32,191	10,250	NYSE	XLO	4.91	1.95	37¾	Troy, Mich	16.8	**Edward J Giblin**
78,057	432,081	NYSE	XON	12.99	5.40	80⅝	New York, NY	176.6	**Clifton C Garvin Jr**
97,325	12,877	NYSE	FEN	4.02	0.69	32½	Germantown, Md	18.7	**Edward G Uhl**
72,250	33,924	NASDAQ	FGRP	3.15	1.00	27⅞	Los Angeles, Cal	11.2	**Richard G Lindsley**
5,568	5,798	ASE	FMI	–2.10	none	7⅞	San Diego, Cal	10.8	**Jan W Heydorn**
58,359	18,256	NYSE	FDX	2.06	none	44¼	Memphis, Tenn	6.8	**Frederick W Smith**
77,497	59,109	NYSE	FNM	0.24	1.12	11⅞	Washington, DC	1.2	**A Oakley Hunter**
33,412	48,414	NYSE	FDS	5.74	1.78	28½	Cincinnati, Ohio	116.6	**Howard Goldfeder**
17,177	10,384	ASE	FEL	1.32	0.10	60	New York, NY	0.1	**Hadley Case**

Share data adjusted for stock splits and stock dividends through May 11, 1981.

Imagine a smokestack that turns heat into oil.



We did.
Now it's a reality.

ɔu can't blame a guy for ing concerned when he sees ot of wasted energy going a factory smokestack. specially when he's riding in carpool, doing his bit to nserve energy. Fortunately, ɔugh, the man is a Garrett gineer. And the sight of that ıokestack is enough to start n thinking about putting that untapped heat to work.

A heat exchanger is design- and implemented to fit side the stack of a furnace. works like this: Gases rising rough the stack (up to 00° F) are used to deliver ree" preheated air to the ırner. The result is 25% less el oil required to heat the rnace. Depending on how you ɔk at it, that's quite an energy scovery. It's one reason ıy, when it comes to making gines and systems more ficient, more companies are rning to Garrett.

We earned our wings in aerospace, then built ourselves into an industrial giant by keeping our feet on the ground. And our hands on a technology base just shy of awesome. But what's most important is the way we're structured to put that asset to work for you.

Our engineers work in teams. No one is isolated to some remote piece of the puzzle. They work together, designing from the top, down. It's called synergy. The results have been impressive.

For gas transmission companies, process industries, and other operators of large gas turbines up to the 100,000 horsepower range, Garrett's heavy duty regenerators can reduce fuel consumption by as much as 30%.

Using low emission, fluid-ized bed technology, we're developing a way to power gas turbines with America's most abundant resource, coal. At the same time, Garrett is pioneering in the use of ceramic turbine components to withstand the higher temperatures needed for the greatest turbine efficiency.

We're working in other areas, too. In everything from nuclear power to mass transit, from processing plants to the high seas. Everywhere doing much the same thing—finding ways to make engines and systems work harder. But the real frontier for us is you.

If you're wondering how we can make your enterprise work harder, write our President, Jack Teske, for more information. You'll find him at The Garrett Corporation, Dept. 1, P.O. Box 92248, Los Angeles, California 90009. Or drop by. But please, remember the heat America loses. And on your way out, don't forget to close the door.

GARRETT The Garrett Corporation
One of The Signal Companies

Garrett

The aerospace company with its feet on the ground.

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net p ($0
226	■	■	■	**Fidelcor (Dec)**	3,316,120	335,518	71,818	11
277	■	■	■	**Fidelity Financial (Dec)**	2,852,623	282,117	64,390	–1
233	■	■	■	**Fidelity Union Bancorp (Dec)**	3,259,445	264,903	103,697	23
439	■	■	■	**Financial Corp of Santa Barbara (Dec)**	1,898,018	177,010	53,738	
463	■	■	■	**Financial Corp of America (Dec)**	1,779,214	178,436	71,858	12
346	■	■	■	**Financial Federation (Dec)**	2,361,796	228,424	148,403	2
333	■	■	■	**Financial General Bankshares (Dec)**	2,426,622	241,388	164,733	16
245	103	428	■	**Firestone Tire & Rubber (Oct)**	3,118,600	4,850,500	605,892	–122
416	■	■	■	**First Alabama Bancshares (Dec)**	1,972,851	212,143	146,698	25
446	■	■	■	**[10]First American (Dec)**	1,884,763	202,958	63,350	15
337	■	■	■	**First American Bank (Dec)**	2,400,176	202,089	54,925	16
357	■	■	■	**First & Merchants (Dec)**	2,301,488	255,282	69,636	14
244	■	■	■	**First Atlanta (Dec)**	3,147,111	331,327	130,163	23
42	402	431	275	**First Bank System (Dec)**	13,475,043	1,336,315	599,708	111
107	■	■	■	**First Boston (Dec)**	6,020,532	579,499	136,065	33
62	■	■	■	**First Charter Financial (Dec)**	9,676,378	955,093	469,429	39
16	163	420	443	**First Chicago (Dec)**	28,699,441	3,414,787	621,984	63
52	478	348	335	**First City Bancorporation of Texas (Dec)**	11,275,084	1,061,412	761,763	89
452	■	■	■	**First Empire State (Dec)**	1,856,375	195,464	45,888	9
400	■	■	■	**First Florida Banks (Dec)**	2,055,063	185,960	92,886	16
453	■	■	■	**First Hawaiian (Dec)**	1,855,812	192,056	83,408	17
41	392	262	259	**First International Bancshares (Dec)**	13,780,872	1,382,572	1,034,334	117
380	■	■	■	**First Kentucky National (Dec)**	2,167,060	230,208	133,853	21
347	■	■	■	**First Maryland Bancorp (Dec)**	2,357,508	257,700	89,606	20
■	■	453	■	**First Mississippi (June)**	236,579	242,690	557,425	21
324	■	■	■	**First National Bancorp (Dec)**	2,499,235	270,337	96,837	20
38	252	■	298	**First National Boston (Dec)**	15,948,497	2,333,295	448,448	102
403	■	■	■	**First National Charter (Dec)**	2,035,388	194,625	106,330	17
432	■	■	■	**First National Cincinnati (Dec)**	1,912,203	190,344	106,875	23
183	■	■	■	**First National State Bancorp (Dec)**	3,918,527	297,780	101,753	21
■	398	■	■	**First National Supermarkets (Mar)**	208,777	1,364,797	21,480	5
360	■	■	■	**First Oklahoma Bancorporation (Dec)**	2,272,539	215,429	172,444	23
125	■	■	■	**First Pennsylvania (Dec)**	5,496,832	755,702	71,046	–164
197	■	■	■	**First Security (Dec)**	3,601,286	395,864	239,620	37
269	■	■	■	**First Tennessee National (Dec)**	2,915,760	297,700	116,918	23
168	■	■	■	**First Union Bancorporation (Dec)**	4,270,998	416,628	142,216	30
230	■	■	■	**First Union (Dec)**	3,282,499	387,588	122,027	27
407	■	■	■	**First United Bancorporation (Dec)**	2,017,953	209,669	124,319	19
155	■	■	■	**First Wisconsin (Dec)**	4,523,712	513,815	129,458	29
■	384	■	■	**Fisher Foods (Dec)**	341,122	1,412,962	47,977	6
342	■	■	■	**Flagship Banks (Dec)**	2,374,258	209,636	122,702	21
■	211	■	■	**Fleming Companies (Dec)**	344,927	2,816,958	164,955	20
■	479	■	■	**Flickinger (July)**	135,174	1,061,153	48,612	7
326	■	■	■	**Florida National Banks of Florida (Dec)**	2,467,773	204,271	135,919	16
371	■	■	421	**Florida Power (Dec)**	2,243,591	970,173	444,488	68
126	249	236	138	**Florida Power & Light (Dec)**	5,492,053	2,347,278	1,141,036	198
478	107	66	231	**Fluor (Oct)**	1,705,012	4,826,297	2,864,460	131
314	157	271	210	**FMC (Dec)**	2,617,297	3,482,183	981,277	142
■	457	■	■	**Food Fair (July)**	365,982	1,124,067	28,512	13
22	7	86	■	**Ford Motor (Dec)**	24,335,389	37,085,500	2,405,500	–1,543

■ Not on 500 list.

[10]Formerly First Antenn

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
27,843	4,996	NASDAQ	FICR	2.34	0.38	14⅛	Philadelphia, Pa	2.9	**Raymond J Dempsey**
13,921	6,439	NYSE	FDY	–0.21	0.45	10	San Francisco, Cal	0.9	**Adolph C Meyer Jr**
33,485	3,788	NYSE	FDU	6.12	2.80	27⅜	Newark, NJ	3.2	**Peter Cartmell**
–1,186	4,299	NYSE	FSB	0.08	0.91	12½	Santa Barbara, Cal	0.7	**David L Tilton**
65,236	4,877	NYSE	FIN	2.60	0.49	14¾	Los Angeles, Cal	0.8	**Charles W Knapp**
3,241	4,210	NYSE	FFI	0.70	1.05	35¼	Los Angeles, Cal	0.6	**Edward L Johnson**
28,924	7,281	ASE	FGL	2.24	0.38	22⅝	Washington, DC	3.1	**J William Middendorf II**
62,800	57,704	NYSE	FIR	–2.11	0.30	10½	Akron, Ohio	96.8	**John J Nevin**
38,610	5,697	NASDAQ	FABC	4.45	1.38	25¾	Montgomery, Ala	2.5	**Frank A Plummer**
15,610	6,106	NASDAQ	FATN	2.41	0.72	10⅜	Nashville, Tenn	2.1	**Kenneth L Roberts**
25,925	4,225	NASDAQ	FABK	3.85	1.23	13	Kalamazoo, Mich	2.5	**James H Duncan**
22,004	3,316	NASDAQ	FMCH	4.53	1.64	21	Richmond, Va	3.3	**C Coleman McGehee**
51,920	6,942	NASDAQ	FATL	3.38	0.91	18¾	Atlanta, Ga	3.6	**Thomas R Williams**
64,636	15,087	NASDAQ	FBKS	7.42	2.24	39¾	Minneapolis, Minn	9.7	**Donald R Grangaard**
34,796	4,498	NASDAQ	FBOS	6.79	1.75	30¼	New York, NY	1.5	**George L Shinn**
47,507	29,805	NYSE	FCF	1.32	0.80	15¾	Beverly Hills, Cal	2.3	**S Mark Taper**
56,322	39,807	NYSE	FNB	1.59	1.20	15⅝	Chicago, Ill	10.6	**Barry F Sullivan**
37,063	28,882	NYSE	FBT	3.31	0.89	26⅛	Houston, Tex	6.4	**James A Elkins Jr**
15,067	2,868	NASDAQ	FEMP	3.45	0.20	16	Buffalo, NY	2.1	**Claude F Shuchter**
26,303	11,795	NASDAQ	FFBK	1.42	0.36	7⅞	Tampa, Fla	2.1	**Chester H Ferguson**
25,671	3,033	NASDAQ	FHWN	5.61	2.40	27½	Honolulu, Haw	2.1	**John D Bellinger**
64,186	20,843	NYSE	FIB	5.66	1.65	49⅝	Dallas, Tex	5.8	**Elvis L Mason**
36,484	3,966	NASDAQ	FKYN	5.34	1.94	33¾	Louisville, Ky	2.4	**A Stevens Miles**
35,788	4,537	NASDAQ	FMDB	4.37	1.18	19¾	Baltimore, Md	2.6	**J Owen Cole**
47,275	21,543	NYSE	FRM	0.98	0.19	25⅞	Jackson, Miss	1.0	**J Kelley Williams**
39,484	4,966	NASDAQ	FNTL	4.18	1.14	19½	Denver, Colo	2.7	**Theodore D Brown**
65,725	12,588	NYSE	FB	8.22	2.20	35⅝	Boston, Mass	11.5	**Richard D Hill**
21,717	3,902	NASDAQ	FNCH	4.38	1.70	27¼	Kansas City, Mo	2.0	**Gordon E Wells**
28,021	4,500	NASDAQ	FNAC	5.15	2.20	23¾	Cincinnati, Ohio	1.6	**William N Liggett**
28,603	4,994	NYSE	FNS	5.09	2.20	20⅜	Newark, NJ	3.0	**Robert R Ferguson Jr**
14,560	3,580	NASDAQ	FOOD	1.24	0.02	6	Maple Heights, Ohio	15.0	**Richard J Bogomolny**
32,142	9,076	NASDAQ	FOKL	2.58	0.40	19	Oklahoma City, Okla	1.2	**Charles A Vose Jr**
80,911	15,788	NYSE	FPA	–10.47	0.22	4½	Philadelphia, Pa	4.5	**George A Butler**
69,745	11,981	NASDAQ	FSCO	3.18	0.93	20	Salt Lake City, Utah	4.6	**George S Eccles**
37,498	9,170	NASDAQ	FTEN	2.60	0.81	12¾	Memphis, Tenn	3.3	**Ronald A Terry**
49,516	7,023	NASDAQ	FUBC	4.37	1.53	20¼	St Louis, Mo	3.2	**Clarence C Barksdale**
41,232	7,074	NASDAQ	FUNC	3.89	1.00	17¼	Charlotte, NC	4.2	**C Clifford Cameron**
28,833	3,406	NASDAQ	FBFW	5.68	1.39	36½	Fort Worth, Tex	1.5	**Paul W Mason**
39,000	4,210	NYSE	FWB	7.09	1.88	30¾	Milwaukee, Wisc	4.1	**Hal C Kuehl**
29,553	6,292	NYSE	FHR	1.05	0.40	7⅝	Bedford Heights, Ohio	16.0	**[11]Dominick DiMatteo Jr**
29,299	7,062	NASDAQ	FLAG	3.02	0.80	17⅜	Miami, Fla	3.0	**Philip F Searle**
34,013	6,406	NYSE	FLM	3.25	1.06	25¾	Oklahoma City, Okla	8.0	**Richard D Harrison**
12,714	2,924	NASDAQ	FLIC	2.57	0.72	16⅝	Buffalo, NY	6.4	**Jerry Metcalf**
25,086	7,499	NASDAQ	FNBF	2.15	0.66	18⅛	Jacksonville, Fla	3.5	**George C Whitner Jr**
87,754	32,623	NYSE	FDP	1.66	1.57	13⅝	St Petersburg, Fla	4.1	**Andrew H Hines Jr**
64,272	43,676	NYSE	FPL	3.94	2.64	26⅛	Miami, Fla	11.1	**Marshall McDonald**
55,113	47,741	NYSE	FLR	2.73	0.65	60	Irvine, Cal	25.8	**J Robert Fluor**
00,385	32,173	NYSE	FMC	4.26	1.45	30½	Chicago, Ill	44.6	**Robert H Malott**
18,038	7,358	PAC	QFFS	1.86	none	3⅞	Ft Lauderdale, Fla	11.0	**Grant C Gentry**
27,200	120,275	NYSE	F	–12.83	2.60	20	Dearborn, Mich	426.7	**Philip Caldwell**

[11] Dominick DiMatteo Jr acquired his stock splits and stock dividends through May 11, 1981
[11] Shares Office of President with R.G. Everett and C. Fazio

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
■	151	490	427	**Foremost-McKesson (Mar)**	1,203,057	3,661,576	492,818	66,77
■	■	358	416	**Fort Howard Paper (Dec)**	508,948	397,403	751,845	68,70
■	355	313	434	**Foster Wheeler (Dec)**	952,524	1,562,542	839,983	59,36
■	■	497	■	**Foxboro (Dec)**	421,063	509,057	485,650	32,09
■	■	122	202	**Freeport Minerals (Dec)**	891,587	664,358	1,922,676	147,40
■	284	■	■	**Fruehauf (Dec)**	1,524,987	2,081,748	304,744	32,21
■	352	■	447	**Fuqua Industries (Dec)**	864,158	1,589,512	186,702	61,67
■	435	120	196	**Gannett (Dec)**	1,211,740	1,214,983	1,936,840	151,94
335	■	■	430	**GATX (Dec)**	2,412,579	992,671	455,784	66,01
■	■	334	■	**Gearhart Industries (Jan)**	235,692	239,182	787,164	26,63
■	■	■	453	**GEICO (Dec)**	1,474,578	726,434	296,346	59,64
430	■	■	■	**Gelco (July)**	1,917,725	652,397	313,193	40,47
■	■	214	461	**General American Oil Co of Texas (June)**	462,027	234,464	1,210,259	57,96
332	112	88	143	**General Dynamics (Dec)**	2,435,800	4,742,700	2,370,146	195,00
31	13	11	11	**General Electric (Dec)**	18,511,000	24,959,000	13,950,606	1,514,00
258	73	167	98	**General Foods (Mar)**	2,978,485	5,959,587	1,495,016	255,82
■	■	290	420	**General Instrument (Feb)**	645,233	825,074	896,334	68,12
409	127	184	173	**General Mills (May)**	2,012,400	4,170,300	1,359,558	170,00
12	3	12	■	**General Motors (Dec)**	34,455,200	57,728,500	13,320,720	–762,50
146	310	■	■	**General Public Utilities (Dec)**	5,042,972	1,831,741	306,320	20,59
194	463	226	194	**[13]General Re (Dec)**	3,654,835	1,104,253	1,169,186	154,40
■	366	220	291	**General Signal (Dec)**	1,136,277	1,521,744	1,195,049	104,21
27	38	46	41	**General Telephone & Electronics (Dec)**	19,720,457	9,978,875	4,220,589	477,87
456	270	■	■	**General Tire & Rubber (Nov)**	1,806,117	2,215,206	443,503	40,76
■	378	373	424	**Genuine Parts (Dec)**	526,701	1,431,713	723,503	67,83
156	97	85	104	**Georgia-Pacific (Dec)**	4,512,000	5,016,000	2,469,775	244,00
■	■	345	■	**Geosource (Sept)**	304,827	441,342	765,625	32,73
71	35	20	18	**Getty Oil (Dec)**	8,266,676	10,150,411	7,547,899	871,86
■	369	■	■	**Giant Food (Feb)**	350,000	1,483,476	83,079	18,30
167	■	■	■	**Gibraltar Financial Corp of Calif (Dec)**	4,295,449	425,727	115,244	–5,27
477	254	311	244	**Gillette (Dec)**	1,708,504	2,315,294	841,988	123,97
161	■	■	■	**Girard (Dec)**	4,385,572	453,067	129,723	33,70
■	441	■	409	**GK Technologies (Dec)**	732,735	1,189,666	456,725	70,15
■	■	280	■	**Global Marine (Dec)**	557,757	219,936	953,136	44,88
124	■	■	■	**Golden West Financial (Dec)**	5,578,887	485,290	299,153	38,06
374	185	■	446	**B F Goodrich (Dec)**	2,216,166	3,079,597	425,437	61,71
130	47	232	133	**Goodyear Tire & Rubber (Dec)**	5,368,301	8,444,015	1,148,176	206,71
495	271	300	397	**Gould (Dec)**	1,608,508	2,205,451	882,759	72,47
163	69	70	83	**W R Grace (Dec)**	4,364,500	6,101,300	2,776,540	283,80
■	■	494	■	**W W Grainger (Dec)**	413,345	782,571	487,796	48,80
■	62	■	■	**Great Atlantic & Pacific Tea (Feb)**	1,230,522	6,684,179	196,313	–3,80
■	395	417	306	**Great Northern Nekoosa (Dec)**	1,210,200	1,373,300	625,304	99,10
60	■	■	■	**Great Western Financial (Dec)**	10,252,838	997,222	419,528	39,17
435	110	422	257	**Greyhound (Dec)**	1,905,098	4,766,150	615,384	118,32
■	330	■	■	**Grumman (Dec)**	906,312	1,729,337	282,122	30,66
129	84	221	99	**Gulf & Western Industries (July)**	5,416,776	5,338,483	1,191,736	255,28
30	9	17	12	**Gulf Oil (Dec)**	18,638,000	26,483,000	8,492,201	1,407,00
265	493	446	260	**Gulf States Utilities (Dec)**	2,925,701	1,005,226	568,556	117,18
377	■	475	376	**Gulf United (Dec)**	2,189,107	674,486	512,001	78,50
150	48	15	39	**Halliburton (Dec)**	4,723,753	8,327,305	9,827,950	500,29

■ Not on 500 list

[13]Formerly General Reinsurance

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
82,252	15,645	NYSE	FOR	4.43	1.89	31½	San Francisco, Cal	17.4	Thomas E Drohan
99,694	26,972	NYSE	FHP	2.55	0.72	27⅞	Green Bay, Wisc	3.7	Paul J Schierl
55,494	34,285	NYSE	FWC	1.74	0.36	24½	Livingston, NJ	16.5	Frank A Lee
45,230	8,284	NYSE	FOX	3.87	1.30	58⅝	Foxboro, Mass	11.2	Earle W Pitt
09,973	31,584	NYSE	FT	4.67	1.00	60⅞	New York, NY	2.7	Paul W Douglas
09,247	12,251	NYSE	FTR	2.63	2.40	24⅞	Detroit, Mich	29.2	Robert D Rowan
00,653	12,876	NYSE	FQA	4.71	0.49	14½	Atlanta, Ga	15.6	John B Fuqua
08,831	52,883	NYSE	GCI	2.81	1.33	36⅝	Rochester, NY	23.0	Allen H Neuharth
20,919	12,277	NYSE	GMT	5.10	2.20	37⅛	Chicago, Ill	9.6	James J Glasser
46,711[12]	13,963	NYSE	GOI	1.84	0.19	56⅜	Fort Worth, Tex	4.7	Marvin Gearhart
94,022	20,263	NYSE	GEC	2.87	0.43	14⅝	Washington, DC	5.4	John J Byrne
89,910	10,103	NYSE	GEL	3.65	0.84	31	Eden Prairie, Minn	7.0	N Bud Grossman
50,923	24,025	NYSE	GAO	2.41	0.39	50⅜	Dallas, Tex	1.6	William P Barnes
53,100	55,442	NYSE	GD	3.58	0.63	42¼	St Louis, Mo	84.4	David S Lewis
39,000	227,765	NYSE	GE	6.65	2.90	61¼	Fairfield, Conn	402.0	John F Welch Jr
29,708	49,422	NYSE	GF	5.12	2.15	30¼	White Plains, NY	53.0	James L Ferguson
09,366	9,638	NYSE	GRL	7.46	0.90	93	New York, NY	27.1	Frank G Hickey
52,700	50,354	NYSE	GIS	3.37	1.36	27	Minneapolis, Minn	65.1	H Brewster Atwater Jr
55,600	296,016	NYSE	GM	–2.65	2.95	45	Detroit, Mich	746.4	Roger B Smith
87,174	61,264	NYSE	GPU	0.34	none	5	Parsippany, NJ	11.4	William G Kuhns
34,998	21,803	NYSE	GRN	7.08	1.40	53⅝	Greenwich, Conn	2.0	Harold J Hudson Jr
34,772	26,705	NYSE	GSX	4.01	1.28	44¾	Stamford, Conn	26.0	Nathan R Owen
51,322	154,884	NYSE	GTE	2.94	2.72	27¼	Stamford, Conn	201.0	Theodore F Brophy
20,393	24,127	NYSE	GY	1.68	1.46	18½	Akron, Ohio	40.8	Michael G O'Neil
78,846	27,562	NYSE	GPC	2.46	1.00	26¼	Atlanta, Ga	11.7	Wilton D Looney
56,000	98,791	NYSE	GP	2.34	1.20	25	Portland, Ore	44.0	Robert E Flowerree
59,902	12,500	NYSE	GSE	2.77	0.46	61¼	Houston, Tex	6.5	John D Platt
74,722	82,154	NYSE	GET	10.60	1.90	91⅞	Los Angeles, Cal	17.3	Sidney R Petersen
39,000	4,887	ASE	GFS A	3.74	1.08	17	Washington, DC	14.0	Israel Cohen
55,759	13,969	NYSE	GFC	–0.38	0.60	8¼	Beverly Hills, Cal	1.3	Herbert J Young
04,738	30,071	NYSE	GS	4.11	1.81	28	Boston, Mass	34.1	Colman M Mockler Jr
52,267	5,462	NASDAQ	GIRA	6.30	1.97	23¾	Bala Cynwyd, Pa	3.5	William B Eagleson Jr
00,941	12,731	NYSE	GK	5.33	1.40	35⅞	Greenwich, Conn	23.0	Robert P Jensen
11,193	13,238	NYSE	GLM	3.47	0.15	72	Los Angeles, Cal	2.1	C Russell Luigs
61,860	21,179	NYSE	GDW	1.80	0.37	14⅛	Oakland, Cal	1.2	[14]Herbert M Sandler
14,027	17,103	NYSE	GR	3.57	1.56	24⅞	Akron, Ohio	40.2	John D Ong
15,654	71,761	NYSE	GT	2.85	1.30	16	Akron, Ohio	144.5	Charles J Pilliod Jr
12,862	34,618	NYSE	GLD	2.10	1.72	25½	Rolling Meadows, Ill	36.5	William T Ylvisaker
12,700	47,060	NYSE	GRA	6.08	2.18	59	New York, NY	91.7	J Peter Grace
17,706	14,139	NYSE	GWW	3.45	0.98	34½	Skokie, Ill	5.7	David W Grainger
14,080	37,393	NYSE	GAP	–0.15	none	5¼	Montvale, NJ	63.0	James Wood
11,500	16,085	NYSE	GNN	6.16	1.65	38⅞	Stamford, Conn	12.4	Robert Hellendale
15,646	22,525	NYSE	GWF	1.74	0.88	18⅝	Beverly Hills, Cal	2.2	James F Montgomery
10,317	44,352	NYSE	G	2.67	1.16	13⅞	Phoenix, Ariz	52.3	Gerald H Trautman
15,708	10,031	NYSE	GQ	2.35	1.25	28⅛	Bethpage, NY	28.0	John C Bierwirth
12,672	75,070	NYSE	GW	4.38	0.68	15⅞	New York, NY	116.0	Charles G Bluhdorn
15,000	195,223	NYSE	GO	7.21	2.38	43½	Pittsburgh, Pa	58.3	Jerry McAfee
15,993	48,908	NYSE	GSU	2.05	1.39	11⅝	Beaumont, Tex	4.2	W Donham Crawford
10,515	25,284	NYSE	GHC	2.76	1.12	20¼	Jacksonville, Fla	7.1	E Grant Fitts
16,645	117,700	NYSE	HAL	4.25	1.05	83½	Dallas, Tex	113.6	John P Harbin

Figure data adjusted for stock splits and stock dividends through May 11, 1981.
Cash flow as of 10/31/80.
Office jointly held with Marion O. Sandler

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr ($00
■	445	■	■	**Hammermill Paper (Dec)**	713,827	1,182,837	215,298	40,2
86	■	■	■	**Harris Bankcorp (Dec)**	6,904,530	725,708	180,677	30,6
■	411	153	370	**Harris Corp (June)**	1,139,784	1,300,932	1,619,211	79,6
■	476	■	■	**Harsco (Dec)**	658,198	1,063,226	336,452	49,7
290	■	■	■	**Hartford National (Dec)**	2,753,339	244,651	53,719	13,8
419	203	255	209	**H J Heinz (Apr)**	1,954,286	2,924,774	1,069,640	142,8
119	■	■	■	**Walter E Heller International (Dec)**	5,728,288	771,720	242,228	43,0
■	■	199	■	**Helmerich & Payne (Sept)**	374,209	198,283	1,299,582	47,2
443	239	328	269	**Hercules (Dec)**	1,889,679	2,485,226	806,455	114,0
■	403	■	445	**Hershey Foods (Dec)**	684,472	1,335,289	332,760	62,0
■	379	427	382	**Heublein (June)**	1,047,019	1,430,050	608,786	77,4
352	183	31	94	**Hewlett-Packard (Oct)**	2,337,000	3,099,000	5,391,838	269,0
■	■	244	285	**Hilton Hotels (Dec)**	696,824	554,327	1,114,006	106,1
481	361	305	280	**Holiday Inns (Dec)**	1,680,103	1,533,758	865,404	108,2
■	■	243	300	**Homestake Mining (Dec)**	367,111	302,213	1,114,286	101,5
187	100	79	87	**Honeywell (Dec)**	3,892,600	4,924,700	2,532,255	280,9
■	408	■	■	**George A Hormel (Oct)**	355,853	1,321,966	147,708	32,7
494	431	149	366	**Hospital Corp of America (Dec)**	1,609,603	1,231,548	1,641,186	80,9
476	■	■	■	**Hospital Trust (Dec)**	1,720,426	181,688	42,000	8,0
88	68	355	213	**[5]Household Finance (Dec)**	6,840,600	6,182,000	757,104	141,0
157	247	213	156	**Houston Industries (Dec)**	4,432,933	2,367,264	1,215,383	183,9
442	248	98	141	**Houston Natural Gas (July)**	1,890,592	2,357,871	2,155,140	196,6
■	■	150	371	**Houston Oil & Minerals (Dec)**	1,077,692	333,498	1,638,971	79,5
■	437	73	230	**Hughes Tool (Dec)**	1,390,281	1,206,155	2,647,235	132,1
■	458	197	437	**Humana (Aug)**	1,326,584	1,116,824	1,302,541	64,6
279	■	■	■	**Huntington Bancshares (Dec)**	2,830,708	277,283	93,660	22,8
151	456	■	359	**E F Hutton Group (Dec)**	4,706,635	1,125,271	440,781	82,6
193	128	480	253	**IC Industries (Dec)**	3,692,800	4,141,600	505,300	120,7
438	■	■	■	**Idaho First National Bank (Dec)**	1,899,283	186,645	125,886	20,9
■	■	■	498	**Ideal Basic Industries (Dec)**	844,421	458,923	353,010	52,7
327	■	421	270	**Illinois Power (Dec)**	2,467,191	883,370	616,831	113,5
80	■	■	■	**Imperial Corp of America (Dec)**	7,347,443	713,703	425,880	40,6
58	87	155	89	**INA (Dec)**	10,603,673	5,254,564	1,601,816	278,6
341	■	■	■	**Indiana National (Dec)**	2,378,388	250,447	63,654	16,6
■	■	■	476	**Indianapolis Power & Light (Dec)**	1,065,834	334,076	256,913	55,6
210	■	■	■	**Industrial National (Dec)**	3,451,689	405,187	119,665	28,2
492	■	■	■	**Industrial Valley Bank & Trust (Dec)**	1,619,157	198,121	42,396	1
■	■	396	■	**Inexco Oil (Dec)**	545,059	146,606	672,903	22,9
322	198	176	186	**Ingersoll-Rand (Dec)**	2,526,839	2,970,960	1,427,192	160,2
260	172	437	■	**Inland Steel (Dec)**	2,958,242	3,255,898	587,438	29,6
■	■	142	309	**Intel (Dec)**	767,168	854,561	1,720,124	96
■	245	394	243	**Interco (Feb)**	1,469,137	2,368,456	675,949	124,
■	481	■	■	**Interlake (Dec)**	703,618	1,055,883	169,731	13,
20	10	1	3	**International Business Machines (Dec)**	26,703,000	26,213,000	39,625,900	3,562,
■	■	315	441	**International Flavors & Fragrances (Dec)**	414,859	448,309	832,650	63,
114	66	322	■	**International Harvester (Oct)**	5,843,458	6,311,804	815,644	-397,
455	314	138	206	**International Minerals & Chemical (June)**	1,848,634	1,789,634	1,776,819	145,
■	493	■	■	**International Multifoods (Feb)**	432,495	1,012,242	150,136	18,
141	94	104	72	**International Paper (Dec)**	5,197,400	5,042,900	2,072,700	314,
17	14	52	17	**[5]International Tel & Tel (Dec)**	28,378,016	23,818,715	3,670,200	895,

■ Not on 500 list.

[5]Figures include unconsolidated subsidiaries

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
75,623	7,974	NYSE	HML	5.04	1.55	27	Erie, Pa	12.0	**Albert F Duval**
44,482	6,818	NYSE	HBC	4.51	2.00	26½	Chicago, Ill	3.8	**Charles M Bliss**
151,909	31,064	NYSE	HRS	2.63	0.76	52⅛	Melbourne, Fla	24.1	**Joseph A Boyd**
88,667	10,006	NYSE	HSC	4.94	2.00	33⅝	Camp Hill, Pa	16.0	**Jeffrey J Burdge**
20,658	2,865	NASDAQ	HNAT	4.85	1.45	18¾	Hartford, Conn	2.7	**Robert L Newell**
177,927	23,003	NYSE	HNZ	6.24	2.25	46½	Pittsburgh, Pa	44.6	**Anthony J F O'Reilly**
128,705	11,816	NYSE	HLR	3.61	1.25	20½	Chicago, Ill	4.7	**Franklin A Cole**
73,926	25,482	NYSE	HP	1.86	0.19	51	Tulsa, Okla	1.4	**Walter H Helmerich III**
251,792	42,445	NYSE	HPC	2.60	1.20	19	Wilmington, Del	22.9	**Alexander F Giacco**
101,994	14,160	NYSE	HSY	4.38	1.50	23½	Hershey, Pa	12.1	**William E C Dearden**
115,871	21,455	NYSE	HBL	3.62	1.66	28⅜	Farmington, Conn	27.1	**Hicks B Waldron**
389,000	60,244	NYSE	HWP	4.47	0.40	89½	Palo Alto, Cal	54.7	**John A Young**
132,092	26,367	NYSE	HLT	4.00	1.42	42¼	Beverly Hills, Cal	32.0	**Barron Hilton**
193,880	32,052	NYSE	HIA	2.92	0.69	27	Memphis, Tenn	44.0	**Roy E Winegardner**
93,198	17,012	NYSE	HM	5.96	1.42	65½	San Francisco, Cal	2.4	**Harry M Conger**
523,600	22,660	NYSE	HON	12.57	2.80	111¾	Minneapolis, Minn	95.9	**Edson W Spencer**
50,914	9,607	ASE	HRL	3.41	0.84	15⅜	Austin, Minn	8.1	**Ira J Holton**
159,279	45,378	NYSE	HCA	1.73	0.25	36¼	Nashville, Tenn	46.0	**Donald S MacNaughton**
19,745	2,000	NASDAQ	HTCO	4.04	2.12	21	Providence, RI	1.8	**Henry S Woodbridge Jr**
458,100	46,591	NYSE	HFC	2.88	1.56	16¼	Prospect Heights, Ill	77.5	**Gilbert R Ellis**
390,590	42,645	NYSE	HOU	4.71	2.68	28½	Houston, Tex	8.4	**Don D Jordan**
292,206	39,910	NYSE	HNG	5.06	1.25	54	Houston, Tex	11.5	**Robert R Herring**
256,639	30,142	ASE	HOI	2.53	0.80	54⅜	Houston, Tex	1.3	**F Fox Benton Jr**
204,124	27,397	NYSE	HT	5.27	0.98	96⅝	Houston, Tex	15.3	**James R Lesch**
145,163	36,498	NYSE	HUM	1.54	0.38	35¾	Louisville, Ky	39.1	**David A Jones**
35,334	3,345	NASDAQ	HBAN	6.83	1.81	28	Columbus, Ohio	2.9	**Frank Wobst**
115,832	13,357	NYSE	EFH	6.16	0.62	33	New York, NY	9.3	**Robert M Fomon**
279,400	16,366	NYSE	ICX	6.02	1.92	30⅞	Chicago, Ill	61.3	**William B Johnson**
28,800	6,148	NASDAQ	IDNB	3.40	0.93	20½	Boise, Ida	2.1	**Thomas C Frye**
97,468	13,448	NYSE	IDL	3.93	1.63	26¼	Denver, Colo	4.2	**John A Love**
165,302	34,508	NYSE	IPC	2.87	2.33	17⅞	Decatur, Ill	3.9	**Wendell J Kelley**
41,259	14,196	NYSE	ICA	2.86	1.20	30	San Diego, Cal	1.7	**E Michael Lallinger**
880,419	39,551	NYSE	INA	7.11	2.20	40½	Philadelphia, Pa	40.2	**Ralph S Saul**
30,380	4,944	NASDAQ	INAT	3.33	0.70	12⅞	Indianapolis, Ind	2.2	**Thomas W Binford**
97,746	13,260	NYSE	IPL	3.68	2.21	19⅜	Indianapolis, Ind	2.2	**Zane G Todd**
49,593	6,059	NYSE	INB	4.57	1.60	19¾	Providence, RI	3.4	**John J Cummings Jr**
4,612	2,609	NASDAQ	IBKT	0.06	2.20	16¼	Jenkintown, Pa	1.9	**Joseph A Gallagher**
85,809	24,140	NYSE	INX	0.94	0.10	27⅞	Houston, Tex	0.7	**Erving Wolf**
147,170	19,061	NYSE	IR	8.08	3.32	74⅞	Woodcliff Lake, NJ	47.4	**Thomas A Holmes**
203,560	21,074	NYSE	IAD	1.38	2.40	27⅞	Chicago, Ill	34.9	**Frederick G Jaicks**
53,751	42,736	NASDAQ	INTC	2.21	none	40¼	Santa Clara, Cal	15.9	**Gordon E Moore**
59,581	14,156	NYSE	ISS	7.63	2.58	47¾	St Louis, Mo	56.4	**William L Edwards Jr**
61,929	6,089	NYSE	IK	2.29	2.20	27⅞	Oak Brook, Ill	10.8	**Reynold C MacDonald**
23,000	583,807	NYSE	IBM	6.10	3.44	67⅞	Armonk, NY	341.3	**John R Opel**
70,635	36,600	NYSE	IFF	1.73	0.86	22¾	New York, NY	3.6	**Henry G Walter Jr**
73,726	31,830	NYSE	HR	–12.91	2.50	25⅝	Chicago, Ill	87.2	**Archie R McCardell**
85,566	27,127	NYSE	IGL	5.38	2.24	65½	Northbrook, Ill	10.6	**Richard A Lenon**
32,224	8,061	NYSE	IMC	2.31	1.26	18⅝	Minneapolis, Minn	8.5	**William G Phillips**
96,500	49,350	NYSE	IP	5.97	2.40	42	New York, NY	46.0	**Edwin A Gee**
42,009	122,340	NYSE	ITT	6.13	2.40	30	New York, NY	358.0	**Rand V Araskog**

share data adjusted for stock splits and stock dividends through May 11, 1981

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pro ($000
205	190	121	130	[15]InterNorth (Dec)	3,485,618	3,037,764	1,927,523	211,72
■	114	■	496	Iowa Beef Processors (Oct)	509,492	4,639,454	476,208	53,16
32	326	■	352	Irving Bank (Dec)	18,089,818	1,740,410	409,604	85,33
■	266	■	165	IU International (Dec)	1,385,599	2,239,399	344,698	179,33
262	■	456	327	Jefferson-Pilot (Dec)	2,934,532	803,426	552,369	91,94
■	123	■	473	Jewel Companies (Jan)	1,288,901	4,267,922	388,601	55,89
372	296	488	388	Jim Walter (Aug)	2,226,210	1,966,613	493,770	74,73
350	260	448	368	Johns-Manville (Dec)	2,338,159	2,266,804	566,305	80,63
223	105	24	53	Johnson & Johnson (Dec)	3,342,500	4,837,400	6,164,949	400,70
■	■	372	452	Joy Manufacturing (Sept)	735,594	934,329	726,184	59,68
105	20	95	97	K mart (Jan)	6,102,462	14,204,400	2,205,400	260,52
238	174	276	103	Kaiser Aluminum & Chemical (Dec)	3,196,800	3,222,100	965,806	247,60
■	■	■	150	Kaiser Steel (Dec)	1,360,434	884,942	285,106	191,46
390	■	361	404	[5]Kaneb Services (Dec)	2,100,839	650,281	748,136	71,61
■	■	■	415	Kansas City Power & Light (Dec)	1,538,978	445,965	271,553	68,70
■	277	162	155	Kellogg (Dec)	1,181,867	2,151,860	1,547,748	184,83
287	373	■	357	Kemper (Dec)	2,777,348	1,459,698	424,942	83,13
234	263	292	148	[16]Kennecott (Dec)	3,231,436	2,255,834	893,486	192,35
285	159	107	158	Kerr-McGee (Dec)	2,806,559	3,477,881	2,046,337	182,22
321	■	■	■	Key Banks (Dec)	2,526,912	195,847	101,010	17,13
500	236	■	340	[17]Kidde (Dec)	1,587,806	2,539,275	429,725	87,38
354	228	212	159	Kimberly-Clark (Dec)	2,325,500	2,600,300	1,218,307	181,80
■	465	297	322	Knight-Ridder Newspapers (Dec)	862,361	1,098,537	888,265	92,85
■	299	384	480	Koppers (Dec)	1,385,888	1,929,190	691,175	54,98
411	34	429	317	Kroger (Dec)	1,997,545	10,316,741	604,041	94,38
■	382	408	431	Lear Siegler (June)	841,067	1,423,397	639,231	65,72
■	210	139	120	Levi Strauss (Nov)	1,455,360	2,840,844	1,759,388	223,68
■	449	■	■	Libbey-Owens-Ford (Dec)	903,841	1,159,863	253,684	28,83
473	■	■	■	Liberty National (Dec)	1,740,165	167,577	67,743	10,57
375	■	■	432	[18]Liberty National Insurance Holding (Dec)	2,213,546	475,394	385,236	65,64
315	233	36	63	Eli Lilly (Dec)	2,607,452	2,558,637	4,830,975	341,97
212	■	■	■	Lincoln First Banks (Dec)	3,435,267	347,065	72,580	16,00
69	220	316	189	Lincoln National (Dec)	8,470,373	2,692,911	832,520	156,63
232	124	58	79	Litton Industries (July)	3,264,291	4,246,532	3,380,450	290,82
331	80	■	■	Lockheed (Dec)	2,442,500	5,395,700	400,124	27,60
66	125	248	122	Loews (Dec)	9,125,112	4,237,645	1,100,331	221,97
■	■	■	455	Lone Star Industries (Dec)	1,051,177	909,315	347,560	59,23
184	419	272	135	Long Island Lighting (Dec)	3,917,746	1,276,938	979,734	205,01
■	483	127	163	Louisiana Land & Exploration (Dec)	1,142,949	1,052,721	1,884,509	180,16
■	440	376	450	Louisiana-Pacific (Dec)	1,114,420	1,195,590	714,480	60,01
179	54	363	235	LTV (Dec)	4,029,669	8,009,958	746,192	127,89
■	■	193	276	Lubrizol (Dec)	651,137	922,697	1,315,446	111,51
■	64	356	330	Lucky Stores (Jan)	1,400,601	6,468,682	757,097	90,45
■	■	227	■	M/A-Com (Sept)	244,119	322,480	1,161,961	24,90
■	244	386	296	R H Macy (July)	1,328,254	2,373,531	686,758	103,02
■	■	468	■	Mallinckrodt (Dec)	356,924	441,795	523,643	36,00
■	307	■	■	Malone & Hyde (June)	346,581	1,854,466	269,360	24,94
7	88	249	112	Manufacturers Hanover (Dec)	55,522,249	5,188,522	1,099,647	228,52
149	■	■	■	Manufacturers National (Dec)	4,768,939	481,398	114,075	27,74
■	319	228	248	MAPCO (Dec)	1,478,456	1,769,740	1,158,890	122,26

■ Not on 500 list.

[5]Figures include unconsolidated subsidiaries
[15]Formerly Northern Natural Gas.
[16]Formerly Kennecott Copper
[17]Formerly Walter Kidde
[18]Formerly Liberty National Life Insurance.

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
	Share data: 1980								
14,850	44,567	NYSE	INI	4.70	1.73	43¼	Omaha, Neb	10.3	**Sam F Segnar**
70,380	9,921	NYSE	IBP	5.17	0.60	48	Dakota City, Neb	10.4	**Robert L Peterson**
45,338	8,646	NYSE	V	9.70	2.72	47⅜	New York, NY	9.2	**Gordon T Wallis**
86,198	19,697	NYSE	IU	6.52	1.03	17½	Philadelphia, Pa	35.0	**John Gilray Christy**
46,512	21,876	NYSE	JP	4.20	1.35	25¼	Greensboro, NC	6.1	**W Roger Soles**
01,852	11,346	NYSE	JWL	4.76	1.86	34¼	Chicago, Ill	39.0	**Weston R Christopherson**
54,401	16,459	NYSE	JWC	4.30	1.85	30	Tampa, Fla	23.2	**James W Walter**
81,351	22,881	NYSE	JM	2.47	1.92	24¾	Denver, Colo	31.0	**John A McKinney**
86,500	61,804	NYSE	JNJ	6.50	2.23	99¾	New Brunswick, NJ	74.3	**James E Burke**
83,793	13,055	NYSE	JOY	4.58	1.81	55⅝	Pittsburgh, Pa	13.2	**James W Wilcock**
52,864	123,379	NYSE	KM	2.07	0.90	17⅞	Troy, Mich	256.0	**Bernard M Fauber**
80,000	42,453	NYSE	KLU	5.91	1.30	22¼	Oakland, Cal	25.8	**Cornell C Maier**
76,071	7,018	NYSE	KSC	27.16	none	40⅝	Oakland, Cal	11.0	**Roland A Kjelland**
15,550	22,004	NYSE	KAB	3.14	0.83	34	Houston, Tex	5.8	**James R Whatley**
04,798	13,410	NYSE	KLT	4.36	2.69	20¼	Kansas City, Mo	2.6	**Arthur J Doyle**
42,069	76,432	NYSE	K	2.42	1.34	20¼	Battle Creek, Mich	21.3	**William E LaMothe**
88,012	12,926	NASDAQ	KEMC	6.57	1.40	32⅞	Long Grove, Ill	10.4	**Joseph E Luecke**
23,979	33,246	NYSE	KN	5.79	1.40	26⅞	Stamford, Conn	35.0	**Thomas D Barrow**
25,910	25,903	NYSE	KMG	7.02	1.74	79	Oklahoma City, Okla	11.1	**Dean A McGee**
23,909	7,215	NASDAQ	KEYB	3.36	1.20	14	Albany, NY	2.9	**Victor J Riley Jr**
25,484	9,523	NYSE	KDE	8.59	1.85	45⅛	Clifton, NJ	53.0	**Fred R Sullivan**
93,800	22,879	NYSE	KMB	7.85	3.12	53¼	Neenah, Wisc	31.3	**Darwin E Smith**
37,501	31,866	NYSE	KRN	2.87	0.73	27⅞	Miami, Fla	15.4	**Alvah H Chapman Jr**
38,083	27,647	NYSE	KOP	2.02	1.40	25	Pittsburgh, Pa	21.0	**Fletcher L Byrom**
09,322	27,772	NYSE	KR	3.41	1.40	21¾	Cincinnati, Ohio	115.0	**Lyle Everingham**
94,171	15,931	NYSE	LSI	4.23	1.19	40⅛	Santa Monica, Cal	24.4	**Robert T Campion**
66,759	40,916	NYSE	LVI	5.36	1.20	43	San Francisco, Cal	48.0	**Peter E Haas**
78,204	11,090	NYSE	LOF	2.17	1.70	22⅞	Toledo, Ohio	18.7	**Don T McKone**
14,790	2,316	NASDAQ	LIBN	4.17	1.08	29¼	Oklahoma City, Okla	0.9	**John W McLean**
06,780	18,792	NYSE	LNH	3.48	1.20	20½	Birmingham, Ala	5.6	**Frank P Samford Jr**
21,041	75,780	NYSE	LLY	4.52	2.20	63¾	Indianapolis, Ind	27.7	**Richard D Wood**
34,884	3,262	NASDAQ	LFBK	4.30	2.00	22¼	Rochester, NY	3.3	**Alexander D Hargrave**
78,720	20,813	NYSE	LNC	7.22	2.85	40	Fort Wayne, Ind	14.6	**Ian M Rolland**
65,218	38,036	NYSE	LIT	7.27	1.08	88⅞	Beverly Hills, Cal	75.4	**Charles B Thornton**
40,700	11,944	NYSE	LK	1.53	none	33½	Burbank, Cal	70.6	**Roy A Anderson**
75,426	13,277	NYSE	LTR	17.99	1.20	82⅞	New York, NY	29.4	**Laurence A Tisch**
23,716	10,819	NYSE	LCE	5.25	1.65	32⅛	Greenwich, Conn	9.7	**James E Stewart**
50,274	69,981	NYSE	LIL	2.53	1.82	14	Mineola, NY	5.6	**Charles R Pierce**
07,901	37,975	NYSE	LLX	4.74	1.80	49⅝	New Orleans, La	3.0	**John G Phillips**
19,670	29,770	NYSE	LPX	2.02	0.69	24	Portland, Ore	15.0	**Harry A Merlo**
52,278	36,849	NYSE	LTV	3.95	none	20¼	Dallas, Tex	63.6	**W Paul Thayer**
14,081	19,931	NYSE	LZ	5.74	1.80	66	Wickliffe, Ohio	4.2	**Lester E Coleman**
58,224	50,056	NYSE	LKS	1.80	1.09	15⅛	Dublin, Cal	65.0	**S Donley Ritchey**
52,269	36,170	NYSE	MAI	0.77	0.10	32⅛	Burlington, Mass	5.8	**Dr Lawrence Gould**
9,874	16,159	NYSE	MZ	6.48	1.43	42½	New York, NY	45.0	**Edward S Finkelstein**
9,364	9,435	NASDAQ	MALL	3.82	1.25	55½	St Louis, Mo	4.8	**Raymond F Bentele**
57,101	7,696	NYSE	MHI	3.26	1.16	35	Memphis, Tenn	7.1	**Joseph R Hyde III**
54,431	33,577	NYSE	MHC	6.87	2.52	32¼	New York, NY	24.9	**John F McGillicuddy**
12,544	5,070	NASDAQ	MNTL	5.48	2.20	22½	Detroit, Mich	3.9	**Dean E Richardson**
07,723	27,268	NYSE	MDA	4.48	1.65	42½	Tulsa, Okla	5.8	**Willis H Thompson Jr**

hare data adjusted for stock splits and stock dividends through May 11, 1981

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pro ($000
145	51	44	57	**Marathon Oil (Dec)**	5,043,092	8,179,751	4,256,674	379,01
417	■	■	■	**Marine (Dec)**	1,971,162	182,888	44,976	11,69
34	305	■	472	**Marine Midland Banks (Dec)**	17,479,565	1,859,229	335,108	55,89
■	332	320	400	**Marriott (Dec)**	1,214,264	1,718,725	820,748	72,03
■	■	201	304	**Marsh & McLennan Companies (Dec)**	1,062,704	677,348	1,261,838	100,73
329	■	■	■	**Marshall & Ilsley (Dec)**	2,446,225	249,636	89,308	20,05
■	492	■	■	**Marshall Field (Jan)**	672,297	1,012,501	175,577	20,68
395	227	135	152	**Martin Marietta (Dec)**	2,069,418	2,619,327	1,811,849	188,1
177	■	■	■	**Maryland National (Dec)**	4,062,553	418,180	147,334	30,68
■	■	362	383	**Masco (Dec)**	862,387	766,440	747,711	77,18
369	177	341	262	**May Department Stores (Jan)**	2,259,344	3,172,976	772,343	[illegible]
■	317	■	■	**Oscar Mayer (Oct)**	609,768	1,774,269	256,320	22,12
325	387	238	241	**[5]MCA (Dec)**	2,477,252	1,403,747	1,136,744	125,3
203	171	165	337	**[19]McDermott (Mar)**	3,550,648	3,282,510	1,514,212	88,36
306	274	115	123	**McDonald's (Dec)**	2,643,369	2,184,344	1,956,776	220,89
185	71	126	207	**McDonnell Douglas (Dec)**	3,899,766	6,066,330	1,890,865	144,55
461	261	435	■	**McGraw-Edison (Dec)**	1,783,200	2,263,612	587,952	50,98
■	498	235	344	**McGraw-Hill (Dec)**	785,502	1,000,146	1,143,809	86,35
■	■	492	■	**MCI Communications (Mar)**	309,843	144,345	489,391	7,12
■	■	447	■	**McRae Consolidated Oil & Gas (Aug)**	113,459	145,074	567,264	9,54
449	218	388	233	**Mead (Dec)**	1,866,644	2,707,170	684,372	128,57
■	■	410	■	**Medtronic (Apr)**	256,760	270,366	638,589	38,67
37	350	419	272	**Mellon National (Dec)**	16,156,458	1,594,829	622,840	112,45
■	253	296	268	**Melville (Dec)**	889,468	2,332,244	889,948	114,70
153	■	■	■	**Mercantile Bancorporation (Dec)**	4,645,743	467,050	156,218	37,84
■	462	■	■	**Mercantile Stores (Jan)**	653,000	1,108,076	200,464	42,44
128	■	■	■	**Mercantile Texas (Dec)**	5,460,466	554,472	375,158	47,54
361	■	■	■	**Merchants National (Dec)**	2,272,330	234,810	61,760	13,77
273	215	23	49	**Merck (Dec)**	2,865,755	2,734,012	6,334,385	415,39
43	193	180	136	**Merrill Lynch (Dec)**	13,245,784	3,022,473	1,382,424	203,34
■	■	101	314	**Mesa Petroleum (Dec)**	1,426,850	328,297	2,133,664	95,23
■	■	390	361	**MGIC Investment (Dec)**	1,085,230	306,713	679,597	82,16
116	■	■	■	**Michigan National (Dec)**	5,757,203	605,155	165,524	40,03
81	250	206	142	**Middle South Utilities (Dec)**	7,334,879	2,342,228	1,234,525	195,90
216	■	■	■	**Midlantic Banks (Dec)**	3,403,976	309,660	86,438	28,08
144	70	22	24	**Minnesota Mining & Manufacturing (Dec)**	5,045,672	6,079,540	6,920,877	678,02
297	267	157	177	**Missouri Pacific (Dec)**	2,730,161	2,237,432	1,592,235	166,06
■	■	128	303	**Mitchell Energy & Development (Jan)**	1,180,144	696,044	1,876,909	100,83
14	2	8	4	**Mobil (Dec)**	32,705,000	59,510,000	17,167,127	2,813,00
115	63	83	200	**Monsanto (Dec)**	5,796,400	6,573,600	2,482,166	148,80
8	89	111	64	**J P Morgan (Dec)**	51,990,646	5,173,376	1,996,752	341,68
■	323	■	■	**Morrison-Knudsen (Dec)**	650,740	1,743,777	433,921	30,61
388	184	92	153	**Motorola (Dec)**	2,111,961	3,098,763	2,288,915	186,08
355	295	132	197	**Murphy Oil (Dec)**	2,308,329	1,966,722	1,865,050	150,54
■	231	307	236	**Nabisco (Dec)**	1,423,162	2,568,685	859,854	127,76
■	■	261	398	**Nalco Chemical (Dec)**	416,223	616,709	1,034,741	72,26
■	356	■	479	**National Can (Dec)**	816,050	1,550,950	200,205	55,01
424	■	■	■	**National Central Financial (Dec)**	1,937,496	199,892	65,526	16,97
127	■	■	■	**National City (Dec)**	5,490,181	522,527	266,152	46,79
482	333	309	295	**National Distillers & Chemical (Dec)**	1,678,487	1,709,821	850,216	103,34

■ Not on 500 list

[5]Figures include unconsolidated subsidiaries

[19]Formerly J Ray McDermott

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Share data: 1980 — Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
800,785	60,165	NYSE	MRO	6.27	1.95	70¾	Findlay, Ohio	15.2	**Harold D Hoopman**
19,262	1,874	NASDAQ	MCRP	6.13	1.74	24	Milwaukee, Wisc	2.1	**George R Slater**
136,275	19,149	NYSE	MM	3.47	0.85	17½	Buffalo, NY	10.2	**Edward W Duffy**
150,292	25,061	NYSE	MHS	2.61	0.20	32¾	Bethesda, Md	66.5	**J Willard Marriott Jr**
103,205	36,708	NYSE	MMC	3.12	1.80	34⅜	New York, NY	14.6	**John M Regan Jr**
28,850	4,304	NASDAQ	MRIS	4.62	1.59	20¾	Milwaukee, Wisc	2.5	**John A Puelicher**
43,912	10,641	NYSE	MF	1.93	1.24	16½	Chicago, Ill	18.8	**Angelo R Arena**
321,634	24,948	NYSE	ML	7.55	2.32	72⅝	Bethesda, Md	34.7	**J Donald Rauth**
39,766	7,187	NASDAQ	MDNT	4.28	0.94	20½	Baltimore, Md	4.6	**Robert D H Harvey**
102,411	24,616	NYSE	MAS	3.03	0.64	30⅜	Taylor, Mich	9.4	**Richard A Manoogian**
274,591	29,145	NYSE	MA	4.01	1.51	26½	St Louis, Mo	66.0	**David C Farrell**
53,642	16,020	NYSE	OMC	1.38	1.10	16	Madison, Wisc	17.0	**Jerry M Hiegel**
307,241	23,744	NYSE	MCA	5.31	1.50	47⅞	Universal City, Cal	18.0	**Lew R Wasserman**
272,960	36,932	NYSE	MDE	1.77	1.35	41	New Orleans, La	58.0	**James E Cunningham**
377,172	40,139	NYSE	MCD	5.49	0.74	48¾	Oak Brook, Ill	117.0	**Fred L Turner**
251,500	38,296	NYSE	MD	3.65	0.86	49⅜	St Louis, Mo	82.6	**Sanford N McDonnell**
108,700	16,332	NYSE	MGR	3.12	1.80	36	Rolling Meadows, Ill	35.1	**Edward J Williams**
110,594	24,731	NYSE	MHP	3.48	1.52	46¼	New York, NY	14.2	**Harold W McGraw Jr**
32,472	36,590	NASDAQ	MCIC	–0.02	none	13⅜	Washington, DC	1.6	**William G McGowan**
21,369	14,928	NASDAQ	MCOG	0.64	none	38	Houston, Tex	0.1	**David Kelley**
172,400	26,322	NYSE	MEA	4.84	1.83	26	Dayton, Ohio	25.0	**C Greene Garner**
52,129	15,528	NYSE	MDT	2.52	0.39	41⅛	Minneapolis, Minn	4.3	**Dale R Olseth**
163,629	19,617	NASDAQ	MNBT	5.73	1.89	31¾	Pittsburgh, Pa	6.9	**J David Barnes**
169,201	25,610	NYSE	MES	4.54	1.60	34¾	Harrison, NY	49.7	**Francis C Rooney Jr**
61,058	5,895	NASDAQ	MTRC	6.42	2.40	26½	St Louis, Mo	3.3	**Donald E Lasater**
65,439	5,896	NYSE	MST	7.20	1.44	34	New York, NY	18.0	**Leon F Winbigler**
65,496	15,908	NYSE	MTD	2.99	0.88	23⅝	Dallas, Tex	3.7	**Gene H Bishop**
13,627	2,167	NASDAQ	MCHN	6.35	1.70	28½	Indianapolis, Ind	1.6	**Otto N Frenzel III**
524,370	74,742	NYSE	MRK	5.54	2.30	84¾	Rahway, NJ	31.6	**John J Horan**
245,664	37,237	NYSE	MER	5.51	1.04	37⅛	New York, NY	29.3	**Roger E Birk**
219,628	33,601	NYSE	MSA	2.78	0.11	63½	Amarillo, Tex	0.7	**Thomas B Pickens Jr**
46,784	22,466	NYSE	MGI	3.64	1.12	30¼	Milwaukee, Wisc	1.5	**Max H Karl**
84,333	9,882	NASDAQ	MNCO	3.98	1.14	16¾	Bloomfield Hills, Mich	6.8	**Stanford C Stoddard**
91,904	107,350	NYSE	MSU	2.01	1.58	11½	New Orleans, La	12.0	**Floyd W Lewis**
39,011	2,766	NASDAQ	MIDL	8.68	2.36	31¼	West Orange, NJ	3.4	**Robert Van Buren**
973,003	117,303	NYSE	MMM	5.78	2.80	59	St Paul, Minn	86.9	**Lewis W Lehr**
169,401	15,534	NYSE	MIS	10.70	3.31	102½	St Louis, Mo	22.0	**Downing B Jenks**
129,735	47,895	ASE	MND	2.10	0.11	39¼	The Woodlands, Tex	3.1	**George P Mitchell**
823,000	212,596	NYSE	MOB	13.24	3.45	80¾	New York, NY	212.8	**Rawleigh Warner Jr**
167,500	36,170	NYSE	MTC	4.10	3.55	68⅝	St Louis, Mo	62.9	**John W Hanley**
56,725	38,678	NYSE	JPM	8.33	2.80	51⅝	New York, NY	11.3	**Lewis T Preston**
65,272	9,563	NYSE	MRN	3.50	0.88	45⅜	Boise, Ida	28.2	**William H McMurren**
128,769	31,355	NYSE	MOT	5.96	1.40	73	Schaumburg, Ill	73.9	**Robert W Galvin**
22,193	37,301	NYSE	MUR	4.03	0.50	50	El Dorado, Ark	4.7	**Charles H Murphy Jr**
80,883	32,295	NYSE	NAB	3.96	1.62	26⅝	East Hanover, NJ	37.0	**Robert M Schaeberle**
86,222	19,995	NYSE	NLC	3.61	1.60	51¾	Oak Brook, Ill	4.4	**Orell T Collins**
90,734	8,898	NYSE	NAC	5.48	0.88	22½	Chicago, Ill	12.3	**Frank W Considine**
124,895	4,519	NASDAQ	NCFC	3.77	1.48	14½	Lancaster, Pa	1.8	**Wilson D McElhinny**
62,898	7,828	NASDAQ	NCTY	5.97	2.75	34	Cleveland, Ohio	3.4	**Julien L McCall**
57,701	31,933	NYSE	DR	2.96	2.00	26⅝	New York, NY	14.0	**Drummond C Bell**

share data adjusted for stock splits and stock dividends through May 11, 1981.

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pro ($000)
■	■	■	448	National Gypsum (Dec)	802,982	831,531	362,819	60,66
■	■	342	■	National Medical Enterprises (May)	596,196	610,770	771,228	29,45
■	■	299	■	National Semiconductor (May)	561,355	980,363	883,367	52,33
211	149	■	356	National Steel (Dec)	3,446,674	3,706,658	471,546	83,73
■	434	■	■	National Tea (Dec)	270,901	1,219,304	48,750	8,6
278	■	■	■	Nationwide (Dec)	2,831,923	651,012	205,620	36,11
458	410	125	132	Natomas (Dec)	1,798,123	1,315,645	1,902,364	208,37
57	488	■	391	[20]NBD Bancorp (Dec)	10,868,976	1,023,493	300,370	74,37
84	■	■	■	NCNB (Dec)	7,175,572	741,908	260,024	47,53
218	168	110	101	NCR (Dec)	3,366,455	3,322,370	1,998,300	254,68
385	468	■	384	New England Electric System (Dec)	2,119,796	1,090,101	455,091	76,36
272	■	■	■	New England Merchants (Dec)	2,889,656	353,305	88,493	22,02
447	■	■	338	New York State Electric & Gas (Dec)	1,871,981	645,314	434,499	88,20
■	■	218	140	Newmont Mining (Dec)	1,447,170	881,598	1,201,095	197,37
191	316	314	182	Niagara Mohawk Power (Dec)	3,808,819	1,777,115	836,945	162,63
404	325	329	302	NICOR (Dec)	2,034,693	1,740,432	797,563	101,39
465	281	80	175	NL Industries (Dec)	1,774,053	2,117,552	2,530,609	167,67
160	■	317	229	NLT (Dec)	4,414,170	748,185	822,866	132,91
■	■	223	■	Noble Affiliates (Dec)	445,110	271,196	1,188,466	49,18
267	353	195	111	Norfolk & Western Railway System (Dec)	2,921,862	1,576,273	1,307,668	232,41
■	223	484	389	North American Philips (Dec)	1,517,905	2,658,431	501,801	74,48
195	405	459	336	Northeast Utilities (Dec)	3,627,742	1,324,545	545,696	88,75
431	■	■	■	Northern California Savings & Loan (Dec)	1,912,394	189,925	72,320	3,60
320	397	■	399	Northern Indiana Public Service (Dec)	2,539,015	1,366,525	472,961	72,23
295	451	412	277	Northern States Power (Dec)	2,735,267	1,159,052	630,681	111,28
112	■	■	■	Northern Trust (Dec)	5,848,532	615,522	159,600	31,24
■	345	306	347	Northrop (Dec)	1,233,700	1,655,400	863,577	86,10
■	347	473	■	Northwest Airlines (Dec)	1,532,539	1,639,330	514,116	7,08
39	370	360	271	Northwest Bancorporation (Dec)	14,394,930	1,477,705	748,642	113,49
■	406	476	488	Northwest Energy (Dec)	1,072,101	1,323,432	510,765	54,07
362	207	237	191	Northwest Industries (Dec)	2,271,700	2,876,400	1,137,150	155,40
459	■	■	■	Northwestern Financial (Dec)	1,789,618	193,168	55,190	14,14
■	417	270	342	Norton (Dec)	953,356	1,281,798	988,500	86,68
313	199	375	242	Norton Simon (June)	2,620,218	2,959,063	718,484	124,73
92	27	71	23	Occidental Petroleum (Dec)	6,629,889	12,476,125	2,761,898	710,78
■	273	■	459	Ogden (Dec)	1,340,202	2,187,336	378,589	58,24
■	■	■	412	Ohio Casualty (Dec)	1,387,023	852,656	391,280	69,58
181	472	324	225	Ohio Edison (Dec)	3,979,965	1,080,869	813,746	135,15
468	■	■	433	Oklahoma Gas & Electric (Dec)	1,752,935	709,108	399,751	65,25
421	■	■	■	Old Kent Financial (Dec)	1,951,038	196,415	93,744	20,21
475	■	■	■	Old Stone (Dec)	1,734,011	159,699	35,640	11,20
■	308	■	■	Olin (Dec)	1,550,128	1,852,853	480,700	33,93
■	■	371	373	Overseas Shipholding Group (Dec)	1,067,901	298,543	729,274	79,06
■	259	321	486	Owens-Corning Fiberglas (Dec)	1,533,830	2,285,067	819,299	54,32
251	139	368	199	Owens-Illinois (Dec)	3,066,014	3,905,741	738,251	149,37
■	342	440	365	PACCAR (Dec)	772,588	1,673,708	583,334	81,08
50	86	77	37	Pacific Gas & Electric (Dec)	11,295,203	5,258,899	2,538,905	524,77
304	166	451	282	Pacific Lighting (Dec)	2,661,672	3,328,150	558,998	107,03
■	■	354	■	Pacific Lumber (Dec)	262,694	289,526	745,817	42,07
201	■	275	227	Pacific Power & Light (Dec)	3,559,071	975,433	970,271	133,86

■ Not on 500 list

[20] [illegible] National Detroit

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
97,408	16,586	NYSE	NG	3.66	1.48	21⅞	Dallas, Tex	13.5	Robert E Scifres
53,679	20,844	NYSE	NME	1.83	0.50	37	Los Angeles, Cal	18.1	Richard K Eamer
120,894	21,947	NYSE	NSM	2.58	none	40¼	Santa Clara, Cal	40.3	Charles E Sporck
104,994	18,768	NYSE	NS	4.42	2.35	25⅛	Pittsburgh, Pa	33.9	Howard M Love
34,344	10,000	NYSE	NTY	0.87	none	4⅞	Rosemont, Ill	12.0	Valdyn W Schulz
258,455	10,281	NASDAQ	NWDCA	3.51	0.66	20	Columbus, Ohio	1.8	Dean W Jeffers
374,657	51,765	NYSE	NOM	4.02	0.86	36¾	San Francisco, Cal	4.5	Dorman L Commons
106,217	12,260	NYSE	NBD	6.08	2.00	24½	Detroit, Mich	6.5	Robert M Surdam
74,405	19,261	NYSE	NCB	2.60	0.76	13½	Charlotte, NC	4.8	Thomas I Storrs
526,939	26,644	NYSE	NCR	9.51	1.90	75	Dayton, Ohio	68.0	William S Anderson
122,720	22,065	NYSE	NES	3.50	2.36	20⅝	Westborough, Mass	5.5	Guy W Nichols
38,134	3,105	NASDAQ	NEBK	6.85	1.76	28½	Boston, Mass	2.5	Roderick M MacDougall
128,702	29,210	NYSE	NGE	2.70	1.82	14⅞	Binghamton, NY	4.3	Charles F Kennedy
231,652	25,830	NYSE	NEM	7.64	2.03	46½	New York, NY	12.4	Plato Malozemoff
265,757	75,231	NYSE	NMK	1.87	1.50	11⅛	Syracuse, NY	9.7	John G Haehl Jr
239,115	20,385	NYSE	GAS	5.00	2.64	39⅛	Naperville, Ill	4.7	Clarence J Gauthier
228,064	33,134	NYSE	NL	4.94	1.30	76⅜	New York, NY	22.7	Ray C Adam
289,901	34,647	NYSE	NLT	3.84	1.32	23¾	Nashville, Tenn	13.8	Russell L Wagner
114,830	22,111	NYSE	NBL	2.28	0.15	53¾	Ardmore, Okla	1.8	Roy Butler
326,471	32,090	NYSE	NFK	7.36	2.20	40¾	Roanoke, Va	23.1	John P Fishwick
27,132	13,162	NYSE	NPH	5.70	1.70	38⅛	New York, NY	43.2	Pieter C Vink
227,537	68,212	NYSE	NU	1.31	1.10	8	Berlin, Conn	7.6	Lelan F Sillin Jr
6,889	5,120	NYSE	NCX	0.71	0.70	14⅛	Palo Alto, Cal	0.7	Firmin A Gryp
71,773	41,127	NYSE	NI	1.47	1.50	11½	Hammond, Ind	6.2	Edmund A Schroer
78,617	29,334	NYSE	NSP	3.23	2.35	21½	Minneapolis, Minn	7.2	Donald W McCarthy
39,909	4,800	NASDAQ	NTRS	6.51	2.26	33¼	Chicago, Ill	3.7	Philip W K Sweet Jr
98,200	14,274	NYSE	NOC	6.04	1.80	60½	Los Angeles, Cal	29.5	Thomas V Jones
77,934	21,647	NYSE	NWA	0.33	0.80	23¾	St Paul, Minn	12.7	M Joseph Lapensky
65,776	25,927	NYSE	NOB	4.39	1.44	28⅞	Minneapolis, Minn	12.0	Chester C Lind
07,432	16,024	NYSE	NWP	3.23	0.95	31⅞	Salt Lake City, Utah	1.5	John G McMillian
68,100	29,925	NYSE	NWT	5.03	2.17	38	Chicago, Ill	44.0	Ben W Heineman
30,180	4,697	NASDAQ	NWFN	2.75	0.58	11¾	Wilkesboro, NC	3.0	Ben T Craig
30,723	16,475	NYSE	NRT	5.25	1.65	60	Worcester, Mass	25.3	Donald R Melville
80,248	45,983	NYSE	NSI	2.57	1.05	15⅝	New York, NY	38.0	David J Mahoney
64,391	79,766	NYSE	OXY	8.82	1.75	34⅝	Los Angeles, Cal	34.7	Armand Hammer
09,266	12,262	NYSE	OG	4.56	1.40	30⅞	New York, NY	30.5	Ralph E Ablon
48,418	11,680	NASDAQ	OCAS	5.96	1.76	33½	Hamilton, Ohio	5.4	John G Sloneker
72,703	68,526	NYSE	OEC	1.52	1.76	11⅞	Akron, Ohio	7.4	Justin T Rogers Jr
29,490	31,353	NYSE	OGE	1.73	1.60	12¾	Oklahoma City, Okla	3.5	James G Harlow Jr
28,604	7,075	NASDAQ	OKEN	2.88	0.96	13¼	Grand Rapids, Mich	2.0	Richard M Gillett
16,033	1,980	NASDAQ	OSTN	5.60	1.92	18	Providence, RI	1.0	Theodore W Barnes
91,983	24,035	NYSE	OLN	1.41	1.03	20	Stamford, Conn	21.0	John M Henske
11,759	17,210	NYSE	OSG	4.59	0.46	42⅜	New York, NY	2.3	Morton P Hyman
61,001	30,628	NYSE	OCF	1.78	1.20	26¾	Toledo, Ohio	24.0	William W Boeschenstein
70,577	28,951	NYSE	OI	5.09	1.40	25½	Toledo, Ohio	61.4	Edwin D Dodd
53,924	8,245	NASDAQ	PCAR	9.83	3.85	70¾	Bellevue, Wash	12.5	Charles M Pigott
14,885	123,849	NYSE	PCG	3.60	2.56	20½	San Francisco, Cal	27.6	Frederick W Mielke Jr
79,706	25,409	NYSE	PLT	4.04	2.29	22	Los Angeles, Cal	9.4	Paul A Miller
51,419	24,156	NYSE	PL	1.74	1.20	30⅞	San Francisco, Cal	4.0	Robert B Hoover
54,231	45,930	NYSE	PPW	2.53	2.04	21⅛	Portland, Ore	8.0	Don C Frisbee

Share data adjusted for stock splits and stock dividends through May 11, 1981

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pro ($000)
204	■	■	■	**Paine Webber (Sept)**	3,500,335	895,666	173,670	-6,89
■	■	469	■	**Pall (July)**	132,530	140,803	522,600	18,87
219	134	■	369	**Pan American World Airways (Dec)**	3,365,588	4,016,060	302,562	80,20
235	241	143	[illegible]	**Panhandle Eastern Pipe Line (Dec)**	3,228,455	2,472,235	1,699,327	183,70
■	■	269	■	**Parker Drilling (Aug)**	465,101	383,080	993,016	39,79
■	489	493	471	**Parker-Hannifin (June)**	653,693	1,022,376	489,093	55,97
■	■	471	■	**Parsons (Dec)**	287,685	773,135	516,715	26,78
■	■	495	■	**Peabody International (Sept)**	449,513	683,862	487,665	17,55
298	293	323	319	**Penn Central (Dec)**	2,726,900	2,013,700	815,643	93,60
363	■	■	■	**PennCorp Financial (Dec)**	2,267,876	479,044	133,715	21,66
110	30	147	110	**J C Penney (Jan)**	5,863,000	11,353,000	1,646,410	233,00
166	■	332	164	**Pennsylvania Power & Light (Dec)**	4,300,080	885,451	791,047	179,75
■	442	■	■	**Pennwalt (Dec)**	830,045	1,188,702	249,426	43,29
317	240	75	74	**Pennzoil (Dec)**	2,591,582	2,483,015	2,592,902	308,50
229	196	169	220	**Peoples Energy (Sept)**	3,288,074	3,016,237	1,462,556	137,56
214	72	82	78	**PepsiCo (Dec)**	3,417,538	5,975,220	2,487,298	291,75
■	■	170	418	**Perkin-Elmer (July)**	741,223	996,149	1,461,794	68,24
■	■	442	■	**Petro-Lewis (June)**	304,578	111,087	581,364	22,25
■	380	188	392	**Petrolane (Sept)**	707,079	1,425,416	1,343,874	74,00
■	■	474	■	**Petrolite (Oct)**	175,544	253,841	512,066	24,88
220	192	50	100	**Pfizer (Dec)**	3,363,669	3,029,280	3,930,645	254,75
387	376	336	328	**Phelps Dodge (Dec)**	2,112,104	1,440,137	785,648	91,31
120	279	229	115	**Philadelphia Electric (Dec)**	5,702,549	2,123,394	1,157,913	227,13
103	■	■	■	**Philadelphia National (Dec)**	6,209,688	658,633	192,920	40,11
■	■	489	■	**Philadelphia Suburban (Dec)**	424,470	337,962	493,192	35,98
77	58	30	32	**Philip Morris (Dec)**	7,366,400	7,328,300	5,397,600	576,80
61	22	16	14	**Phillips Petroleum (Dec)**	9,844,382	13,376,563	8,940,575	1,069,61
415	191	357	287	**Pillsbury (May)**	1,983,700	3,032,000	751,988	104,70
■	■	245	329	**Pioneer (Dec)**	703,290	911,989	1,105,842	90,55
■	■	414	465	**Pioneer Hi-Bred International (Aug)**	343,154	405,884	629,907	57,24
■	427	481	387	**Pitney Bowes (Dec)**	1,094,402	1,257,294	504,492	75,13
102	■	■	■	**Pittsburgh National (Dec)**	6,224,959	631,555	275,722	48,17
■	291	277	381	**Pittston (Dec)**	1,345,751	2,051,611	964,665	77,41
■	■	304	489	**Pogo Producing (Dec)**	553,418	220,394	875,315	54,03
■	375	319	350	**Polaroid (Dec)**	1,394,567	1,450,785	821,375	85,40
399	■	■	346	**Portland General Electric (Dec)**	2,061,683	490,237	419,209	86,20
■	■	443	■	**Potlatch (Dec)**	1,021,644	819,593	574,933	49,40
338	■	466	292	**Potomac Electric Power (Dec)**	2,396,855	856,058	530,603	104,08
280	178	183	131	**PPG Industries (Dec)**	2,825,900	3,158,400	1,360,480	209,20
■	■	215	■	**Prime Computer (Dec)**	233,094	267,637	1,206,233	31,22
95	32	29	29	**Procter & Gamble (June)**	6,553,359	10,772,186	5,696,651	642,83
348	■	■	429	**Provident Life & Accident (Dec)**	2,345,836	972,688	442,980	66,65
291	■	■	■	**Provident National (Dec)**	2,751,615	295,371	131,595	29,05
373	452	444	354	**Public Service Co of Colorado (Dec)**	2,216,370	1,155,644	569,858	85,02
284	■	378	247	**Public Service Company of Indiana (Dec)**	2,808,877	645,688	700,178	122,68
■	■	■	451	**Public Service Co of New Hampshire (Dec)**	1,254,228	351,247	261,683	59,84
■	■	■	405	**Public Service Company of New Mexico (Dec)**	1,458,412	280,516	322,518	71,43
91	197	198	92	**Public Service Electric & Gas (Dec)**	6,724,860	2,994,054	1,302,455	275,40
■	242	424	310	**Quaker Oats (June)**	1,334,200	2,405,200	613,599	96,40
138	■	■	■	**Rainier Bancorporation (Dec)**	5,221,638	569,384	236,769	38,87

■ Not in 500 list

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Share data: 1980 — Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
–6,919	7,676	NYSE	PWJ	–1.32	0.44	22⅝	New York, NY	7.9	Donald B Marron
25,926	13,400	ASE	PLL	1.42	0.29	39	Glen Cove, NY	3.0	Abraham Krasnoff
14,345	71,191	NYSE	PN	1.13	none	4¼	New York, NY	48.6	William T Seawell
41,952	37,868	NYSE	PEL	4.86	1.74	44⅞	Houston, Tex	6.8	Richard L O'Shields
89,368	28,576	NYSE	PKD	1.54	0.12	34¾	Tulsa, Okla	6.0	Robert L Parker
83,743	15,049	NYSE	PH	3.80	1.26	32½	Cleveland, Ohio	20.6	Patrick S Parker
31,152	12,158	ASE	RMP	2.21	0.83	42½	Pasadena, Cal	8.6	William E Leonhard
30,040	10,837	NYSE	PBD	1.66	0.32	45	Stamford, Conn	9.7	John E McConnaughy Jr
61,600	21,324	NYSE	PC	2.72	none	38¼	New York, NY	33.2	Richard Dicker
77,672	18,767	NYSE	PCF	1.12	0.16	7⅛	Santa Monica, Cal	2.9	[21]Stanley Beyer
84,000	70,060	NYSE	JCP	3.33	1.82	23½	New York, NY	194.0	Donald V Seibert
13,775	50,627	NYSE	PPL	2.64	2.10	15⅝	Allentown, Pa	7.6	Robert K Campbell
89,505	8,948	NYSE	PSM	4.20	2.20	27⅞	Philadelphia, Pa	13.0	Edwin E Tuttle
18,173	51,472	NYSE	PZL	5.90	2.00	50⅜	Houston, Tex	10.2	J Hugh Liedtke
40,146	28,890	NYSE	PGL	5.01	3.00	50⅝	Chicago, Ill	8.3	Orval C Davis
92,607	91,277	NYSE	PEP	3.20	1.26	27¼	Purchase, NY	111.0	Donald M Kendall
93,205	42,066	NYSE	PKN	1.67	0.36	34¾	Norwalk, Conn	14.6	Robert H Sorensen
66,064	18,456	ASE	PTL	1.09	none	31½	Denver, Colo	1.2	Jerome A Lewis
29,781	25,906	NYSE	PTO	2.93	0.70	51⅞	Long Beach, Cal	14.9	Rudolph J Munzer
34,996	11,874	NASDAQ	PLIT	2.10	0.60	43⅛	St. Louis, Mo	1.9	Ellis L Brown
52,560	73,470	NYSE	PFE	3.48	1.44	53½	New York, NY	41.1	Edmund T Pratt Jr
62,853	20,881	NYSE	PD	4.20	1.55	37⅝	New York, NY	15.1	George B Munroe
23,016	92,633	NYSE	PE	2.00	1.80	12½	Philadelphia, Pa	9.6	James L Everett
61,882	5,824	NASDAQ	PHNA	6.89	2.64	33⅛	Philadelphia, Pa	5.0	G Morris Dorrance Jr
63,633	8,807	NYSE	PSC	4.05	1.21	56	Radnor, Pa	3.6	James M Ballengee
38,100	124,800	NYSE	MO	4.63	1.51	43¼	New York, NY	72.0	George Weissman
27,906	152,180	NYSE	P	7.01	1.80	58¾	Bartlesville, Okla	32.4	William C Douce
82,100	20,053	NYSE	PSY	5.22	1.79	37½	Minneapolis, Minn	59.5	William H Spoor
66,062	37,328	NYSE	PNA	2.44	0.75	29⅝	Amarillo, Tex	3.0	K Bert Watson
66,069	15,947	NASDAQ	PHYB	3.59	0.90	39½	Des Moines, Iowa	2.1	Thomas N Urban
53,103	14,838	NYSE	PBI	4.31	1.45	34	Stamford, Conn	26.1	Fred T Allen
70,125	6,196	NASDAQ	PITS	7.77	2.75	44½	Pittsburgh, Pa	3.5	Merle E Gilliand
79,307	37,830	NYSE	PCO	2.06	1.20	25½	Greenwich, Conn	15.8	Nicholas T Camicia
38,925	24,920	NYSE	PPP	2.13	0.44	35⅛	Houston, Tex	0.2	William C Liedtke Jr
48,165	32,855	NYSE	PRD	2.60	1.00	25	Cambridge, Mass	18.0	William J McCune Jr
57,912	36,061	NYSE	PGN	2.03	1.70	11⅝	Portland, Ore	3.0	Robert H Short
07,161	15,230	NYSE	PCH	3.25	1.34	37¾	San Francisco, Cal	10.2	Richard B Madden
50,077	42,877	NYSE	POM	2.10	1.46	12⅜	Washington, DC	5.3	W Reid Thompson
58,500	33,386	NYSE	PPG	6.34	2.12	40¾	Pittsburgh, Pa	37.3	L Stanton Williams
47,857	29,242	NYSE	PRM	1.07	none	41¼	Natick, Ma	3.3	Kenneth G Fisher
83,013	82,710	NYSE	PG	7.78	3.60	68⅞	Cincinnati, Ohio	60.7	John G Smale
95,337	9,844	NASDAQ	PACC	6.77	1.78	45	Chattanooga, Tenn	3.6	H Carey Hanlin
32,551	4,245	NASDAQ	PROV	6.81	2.33	31	Philadelphia, Pa	2.3	Roger S Hillas
51,897	39,990	NYSE	PSR	1.92	1.60	14¼	Denver, Colo	6.2	Richard F Walker
25,560	33,948	NYSE	PIN	3.21	2.44	20⅝	Plainfield, Ind	4.7	Hugh A Barker
50,726	18,204	NYSE	PNH	2.77	2.12	14⅜	Manchester, NH	1.8	William C Tallman
32,555	16,330	NYSE	PNM	3.36	2.04	19¾	Albuquerque, NM	2.5	Jerry D Geist
33,522	76,615	NYSE	PEG	3.13	2.29	17	Newark, NJ	12.8	Robert I Smith
51,000	20,118	NYSE	OAT	4.55	1.45	30½	Chicago, Ill	31.0	Robert D Stuart Jr
57,906	9,377	NASDAQ	RBAN	4.15	1.24	25¼	Seattle, Wash	5.6	G Robert Truex Jr

Share data adjusted for stock splits and stock dividends through May 11, 1981

Price joint: Goldwill, Burton Borman

When all is said and done, service makes the difference.

At Joy, we're continually working to design and manufacture machinery and equipment that is unsurpassed for quality and reliability. But even the finest equipment requires regular service if it's to work at peak efficiency. We have the experienced service people who aren't afraid to get their hands dirty. To us, service **really** does make the difference.

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This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities.
The offer is made only by the Prospectus.

April 3, 1981

MCI

$125,000,000

MCI Communications Corporation

14⅛% Subordinated Debentures due April 1, 2001

Interest payable April 1 and October 1

Price 84.71%

(Plus accrued interest from April 1, 1981)

Copies of the Prospectus may be obtained in any State only from such of the undersigned and the other several underwriters as may lawfully offer the securities in such State.

Shearson Loeb Rhoades Inc. | **Drexel Burnham Lambert** Incorporated

Bear, Stearns & Co. | **Dillon, Read & Co. Inc.** | **Donaldson, Lufkin & Jenrette** Securities Corporation

E. F. Hutton & Company Inc. | **Kidder, Peabody & Co.** Incorporated | **Lehman Brothers Kuhn Loeb** Incorporated

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Smith Barney, Harris Upham & Co. Incorporated | **Warburg Paribas Becker** A. G. Becker | **Wertheim & Co., Inc.**

Dean Witter Reynolds Inc. | **Sanford C. Bernstein & Co., Inc.** | **Hambrecht & Quist**

ABD Securities Corporation | **Advest, Inc.** | **Arnhold and S. Bleichroeder, Inc.**

Basle Securities Corporation | **Alex. Brown & Sons** | **Daiwa Securities America Inc.**

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Nomura Securities International, Inc. | **Oppenheimer & Co., Inc.**

Wm. E. Pollock & Co., Inc. | **Thomson McKinnon Securities Inc.**

Tucker, Anthony & R. L. Day, Inc. | **Yamaichi International (America), Inc.**

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pr $00
370	101	239	181	**Ralston Purina (Sept)**	2,246,500	4,886,000	1,133,318	163,
■	■	402	■	**Raychem (June)**	403,909	462,377	656,232	36
263	98	39	84	**Raytheon (Dec)**	2,928,535	5,002,088	4,585,130	282
85	53	94	71	**RCA (Dec)**	7,146,300	8,011,300	2,209,323	315,
■	■	274	401	**Reading & Bates (Dec)**	714,875	407,447	974,848	71,
301	400	■	375	**Reliance Group (Dec)**	2,681,239	1,350,933	460,046	78
98	■	■	462	**Republic New York (Dec)**	6,446,902	771,004	332,465	57
46	428	425	341	**Republic of Texas (Dec)**	11,866,990	1,246,311	611,354	86
254	146	■	■	**Republic Steel (Dec)**	3,016,832	3,760,042	382,323	50
■	466	■	■	**Revco D S (May)**	367,087	1,092,797	407,430	38
368	272	141	147	**Revlon (Dec)**	2,260,260	2,203,324	1,728,528	192
■	470	■	■	**Rexnord (Oct)**	794,907	1,083,690	366,953	41
78	46	38	26	**R J Reynolds Industries (Dec)**	7,355,300	8,449,000	4,749,517	670
248	153	395	162	**Reynolds Metals (Dec)**	3,097,373	3,653,228	675,672	180
■	■	■	390	**[22]Richardson-Vicks (June)**	692,233	929,207	NA	74
243	■	■	■	**Riggs National Bank of Washington DC (Dec)**	3,149,394	289,216	145,112	24
■	454	383	411	**Roadway Express (Dec)**	586,031	1,154,862	692,169	69
158	60	57	88	**Rockwell International (Sept)**	4,430,900	6,906,500	3,383,775	280
■	331	432	318	**Rohm & Haas (Dec)**	1,240,456	1,725,304	598,377	93
■	■	487	■	**Rollins (June)**	281,012	400,386	493,776	35
■	■	331	■	**ROLM (June)**	117,585	200,729	792,319	17
■	■	256	407	**Rowan Companies (Dec)**	479,623	255,164	1,067,355	71
488	339	■	468	**Ryder System (Dec)**	1,646,191	1,694,096	461,586	56
■	■	301	■	**Sabine (Dec)**	243,229	119,631	879,368	25
312	409	385	281	**Safeco (Dec)**	2,623,921	1,317,319	690,204	107
225	18	330	255	**Safeway Stores (Dec)**	3,338,832	15,102,673	796,538	119
467	418	164	261	**St Joe Minerals (Dec)**	1,764,891	1,279,083	1,518,723	117
170	304	325	278	**St Paul Companies (Dec)**	4,252,380	1,868,314	812,123	110
308	216	242	171	**St Regis Paper (Dec)**	2,642,236	2,714,175	1,120,043	170
413	■	■	■	**San Diego Gas & Electric (Dec)**	1,985,534	960,444	428,511	52
■	■	499	■	**Sanders Associates (July)**	234,985	281,057	485,063	18
165	175	61	76	**Santa Fe Industries (Dec)**	4,330,200	3,215,000	3,005,915	301
■	436	168	367	**Santa Fe International (Dec)**	1,404,004	1,209,494	1,492,449	80
414	327	99	108	**Schering-Plough (Dec)**	1,983,900	1,740,400	2,151,441	239
136	102	5	16	**Schlumberger Limited (Dec)**	5,242,002	4,883,944	22,347,468	994
■	303	■	491	**SCM (June)**	1,008,588	1,892,392	231,576	53
408	283	327	228	**Scott Paper (Dec)**	2,013,952	2,083,235	807,362	133
64	485	■	419	**Seafirst (Dec)**	9,587,714	1,036,510	435,708	68
■	471	178	351	**G D Searle (Dec)**	1,129,998	1,081,558	1,409,049	85
18	12	37	33	**Sears Roebuck (Jan)**	28,169,300[23]	25,123,700	4,808,828	566
■	426	■	■	**Seatrain Lines (June)**	913,414	1,257,495	30,768	35
19	182	281	160	**Security Pacific (Dec)**	27,794,208	3,116,693	952,016	181
■	■	171	■	**SEDCO (June)**	670,766	372,904	1,459,358	38
208	■	■	■	**Shawmut (Dec)**	3,456,207	346,088	86,020	16
364	■	441	474	**Shearson Loeb Rhoades(June)**	2,267,691	652,466	583,050	55
33	16	6	10	**Shell Oil (Dec)**	17,615,000	19,830,000	17,991,503	1,542,
■	424	■	■	**Sherwin-Williams (Dec)**	768,592	1,263,721	174,447	24
■	404	■	■	**Sigmor (June)**	452,803	1,327,605	311,550	48
247	119	140	174	**Signal Companies (Dec)**	3,100,600	4,335,600	1,743,247	167
■	214	■	■	**Singer (Dec)**	1,529,300	2,786,600	199,092	38

■ Not on 500 list
NA not available

[22]Following results after the divestiture of the Merrell ethical pharmaceutical businesses in March, 1981. As a result the market value of common at Dec. 31 is not available.
[23]Assets as of 10/31/80.

Cash flow ($000)	Share data: 1980 — Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
74,000	107,935	NYSE	RAL	1.51	0.64	10½	St Louis, Mo	69.8	**R Hal Dean**
57,694	8,868	NASDAQ	RAYC	4.22	0.38	74	Menlo Park, Cal	7.9	**Paul M Cook**
25,601	41,683	NYSE	RTN	6.80	2.00	110	Lexington, Mass	77.9	**Thomas L Phillips**
50,000	75,211	NYSE	RCA	3.35	1.75	29⅜	New York, NY	133.0	**Edgar H Griffiths**
10,531	18,307	NYSE	RB	3.72	0.60	53¼	Tulsa, Okla	3.9	**John W Bates Jr**
95,550	6,302	NYSE	REL	10.46	2.50	73	New York, NY	9.4	**Saul P Steinberg**
04,651	10,856	NYSE	RNB	5.15	0.85	30⅝	New York, NY	2.0	**Walter H Weiner**
19,146	17,981	NYSE	RPT	4.81	1.12	34	Dallas, Tex	5.8	**James D Berry**
77,798	16,183	NYSE	RS	3.15	2.00	23⅝	Cleveland, Ohio	40.7	**William J De Lancey**
50,463	13,581	NYSE	RDS	2.88	0.90	30	Twinsburg, Ohio	17.5	**Sidney Dworkin**
48,008	36,011	NYSE	REV	4.87	1.56	48	New York, NY	36.9	**Michel C Bergerac**
70,823	20,107	NYSE	REX	2.09	1.04	18¼	Milwaukee, Wisc	17.6	**Robert V Krikorian**
71,000	104,099	NYSE	RJR	6.23	2.18	45⅝	Winston-Salem, NC	81.5	**J Paul Sticht**
31,900	19,168	NYSE	RLM	9.32	2.25	35¼	Richmond, Va	36.8	**David P Reynolds**
37,329	23,166	NYSE	RVI	3.15	none	NA	Milton, Conn	10.0	**John S Scott**
35,547	2,992	NASDAQ	RIGS	8.13	2.90	48½	Washington, DC	2.2	**Vincent C Burke Jr**
23,213	19,636	NASDAQ	ROAD	3.55	0.95	35¼	Akron, Ohio	21.2	**William F Spitznagel**
06,800	75,195	NYSE	ROK	3.77	1.38	45	Pittsburgh, Pa	108.2	**Robert Anderson**
03,557	12,903	NYSE	ROH	7.26	2.16	46⅛	Philadelphia, Pa	13.2	**Vincent L Gregory Jr**
59,042	27,432	NYSE	ROL	1.31	0.42	18	Altanta, Ga	13.0	**O Wayne Rollins**
22,007	16,948	NYSE	RM	1.09	none	46¾	Santa Clara, Cal	3.1	**M Kenneth Oshman**
24,594	47,438	NYSE	RDC	1.49	0.04	22½	Houston, Tex	1.5	**Charles R Palmer**
56,088	17,017	NYSE	RDR	3.32	1.04	27⅛	Miami, Fla	19.0	**Leslie O Barnes**
59,420	14,535	NYSE	SAB	1.74	0.30	60½	Dallas, Tex	0.3	**Ashley H Priddy**
08,758	19,106	NASDAQ	SAFC	5.58	1.80	36⅛	Seattle, Wash	11.2	**Roland M Trafton**
35,043	26,116	NYSE	SA	4.57	2.60	30½	Oakland, Cal	149.4	**Peter A Magowan**
30,149	45,335	NYSE	SJO	2.60	0.78	33½	New York, NY	12.0	**John C Duncan**
79,895	20,958	NASDAQ	STPL	5.27	2.00	38¾	St Paul, Minn	11.2	**Carl B Drake Jr**
79,772	32,465	NYSE	SRT	5.18	2.03	34½	New York, NY	29.7	**William R Haselton**
04,125	36,469	NYSE	SDO	1.01	1.54	11¾	San Diego, Cal	4.8	**Robert E Morris**
25,854	7,761	NYSE	SAA	2.65	0.52	62½	Nashua, NH	6.5	**Jack L Bowers**
35,900	29,326	NYSE	SFF	10.42	2.60	102½	Chicago, Ill	42.5	**John S Reed**
58,528	48,240	NYSE	SAF	1.85	0.36	30⅞	Orange, Cal	10.8	**Edfred L Shannon Jr**
38,500	53,122	NYSE	SGP	4.45	1.56	40½	Kenilworth, NJ	27.4	**Richard J Bennett**
34,701	191,004	NYSE	SLB	5.21	0.87	117	New York, NY	83.1	**Jean Riboud**
23,021	9,649	NYSE	SCM	5.55	1.55	24	New York, NY	28.0	**Paul H Elicker**
40,210	38,909	NYSE	SPP	3.43	1.00	20¾	Philadelphia, Pa	20.5	**Charles D Dickey Jr**
21,878	15,288	NYSE	SFC	4.48	1.20	28½	Seattle, Wash	7.7	**William M Jenkins**
55,092	52,187	NYSE	SRL	1.61	0.52	27	Skokie, Ill	18.3	**Donald H Rumsfeld**
00,000E	315,333	NYSE	S	1.79	1.34	15¼	Chicago, Ill	390.0	**Edward R Telling**
11,777	14,479	NYSE	SEA	–2.44	none	2⅛	New York, NY	1.9	**Howard M Pack**
10,316	27,695	NYSE	SPC	6.55	1.95	34⅜	Los Angeles, Cal	24.6	**Richard J Flamson III**
93,588	31,768	NYSE	SED	1.24	0.24	45⅞	Dallas, Tex	8.1	**B Gill Clements**
11,943	3,740	NASDAQ	SHAS	4.47	1.35	23	Boston, Mass	3.7	**John P LaWare**
5,365	15,548	NYSE	SHE	4.66	0.37	37½	New York, NY	9.3	**Sanford I Weill**
39,000	308,867	NYSE	SUO	4.99	1.45	58¼	Houston, Tex	36.6	**John F Bookout**
9,496	9,828	NYSE	SHW	2.44	0.60	17¾	Cleveland, Ohio	16.8	**John G Breen**
54,923	16,750	NASDAQ	SGMOA	2.87	0.40	18⅝	San Antonio, Tex	5.2	**Tom E Turner**
58,500	57,628	NYSE	SGN	2.89	0.69	30¼	San Diego, Cal	51.7	**Forrest N Shumway**
50,900	16,591	NYSE	SMF	1.92	0.10	12	Stamford, Conn	71.0	**Joseph B Flavin**

Share data adjusted for stock splits and stock dividends through May 11 1981.
Not available
Estimate

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net p ($00
■	■	173	372	**Smith International (Dec)**	824,442	784,130	1,444,060	79,
■	318	32	75	**SmithKline (Dec)**	1,554,411	1,771,938	5,317,200	307,
213	■	■	■	**Society (Dec)**	3,431,183	340,239	115,955	26,
457	■	■	439	**South Carolina Electric & Gas (Dec)**	1,802,392	630,746	374,219	63,
497	■	■	■	**South Carolina National (Dec)**	1,603,232	169,979	80,997	18,
111	■	■	■	**Southeast Banking (Dec)**	5,853,575	603,446	264,334	47,
450	■	■	■	**Southern Bancorp of Alabama (Dec)**	1,860,579	211,422	84,019	18,
73	152	118	69	**Southern California Edison (Dec)**	7,733,898	3,661,117	1,943,759	317,
49	144	105	62	**Southern Company (Dec)**	11,466,555	3,763,483	2,066,538	344,
384	321	174	215	**Southern Natural Resources (Dec)**	2,134,023	1,744,484	1,435,809	139,
464	■	■	379	**Southern New England Telephone (Dec)**	1,776,948	825,013	450,141	77,
132	208	246	190	**Southern Pacific (Dec)**	5,329,900	2,859,700	1,103,257	155,
242	348	204	161	**Southern Railway (Dec)**	3,164,815	1,637,712	1,241,069	180,
■	111	500	380	**Southland (Dec)**	1,495,385	4,758,656	484,702	77,
■	■	151	444	**Southland Royalty (Dec)**	612,998	366,571	1,625,489	62,
175	■	■	■	**Southwest Bancshares (Dec)**	4,158,193	377,983	243,867	29,
169	109	74	91	**Sperry (Mar)**	4,262,186	4,785,425	2,593,178	277,
■	500	366	358	**Square D (Dec)**	741,189	998,973	740,399	83,
434	341	175	238	**Squibb (Dec)**	1,905,669	1,675,780	1,431,547	127,
■	344	435	393	**A E Staley Manufacturing (Sept)**	741,776	1,655,992	587,952	73,
496	195	339	289	**Standard Brands (Dec)**	1,608,441	3,018,466	773,822	104,
24	6	9	5	**Standard Oil Calif (Dec)**	22,139,603	40,479,200	16,979,874	2,400,
26	11	4	7	**Standard Oil Indiana (Dec)**	20,167,474	26,133,080	23,352,415	1,915,
45	31	7	8	**Standard Oil Ohio (Dec)**	12,080,050	11,023,196	17,685,000	1,811,
256	■	■	■	**State Street Boston (Dec)**	3,009,109	321,036	86,089	21,
389	338	259	222	**Stauffer Chemical (Dec)**	2,111,564	1,695,219	1,038,012	136,
■	337	182	245	**Sterling Drug (Dec)**	1,258,386	1,701,433	1,373,782	123,
■	301	■	■	**J P Stevens (Oct)**	1,070,352	1,915,959	205,043	20,
■	289	■	■	**Stop & Shop Companies (Jan)**	474,549	2,059,183	61,702	12,
■	■	416	■	**Storage Technology (Dec)**	738,119	603,493	627,776	45,
422	■	■	■	**Sumitomo Bank of California (Dec)**	1,948,648	197,705	47,539	10,
228	■	■	■	**Sun Banks of Florida (Dec)**	3,311,942	326,062	167,098	27,
55	25	27	21	**Sun Company (Dec)**	10,955,000	12,945,000	5,957,348	723,
■	386	■	■	**Sunbeam (Mar)**	892,927	1,406,429	252,540	49,
■	■	267	374	**Sundstrand (Dec)**	786,694	926,026	1,001,011	78,
■	126	463	477	**Super Valu Stores (Feb)**	593,291	4,203,665	535,301	55,
207	368	34	67	**Superior Oil (Dec)**	3,461,473	1,497,695	5,029,596	334,
■	225	■	■	**Supermarkets General (Jan)**	572,884	2,628,851	158,082	26,
■	■	452	■	**Supron Energy (Dec)**	155,014	66,266	558,085	20,
■	439	■	■	**Sysco (June)**	275,678	1,198,355	252,466	20,
■	■	298	■	**Tandem Computers (Sept)**	95,701	108,989	887,680	10,
■	391	78	273	**Tandy (June)**	710,298	1,384,637	2,533,629	112,
■	■	240	353	**Tektronix (May)**	841,693	971,306	1,129,590	85,
■	■	344	■	**Tele-Communications (Dec)**	348,577	124,395	765,791	8,
143	138	63	65	**[5]Teledyne (Dec)**	5,145,567	3,920,127	2,976,048	338,
■	■	460	■	**Teleprompter (Dec)**	385,037	203,558	542,736	23,
40	24	26	20	**Tenneco (Dec)**	13,852,989	13,226,146	6,062,634	725,
383	■	■	■	**Tennessee Valley Bancorp (Dec)**	2,139,030	223,380	40,701	8,
■	156	■	293	**Tesoro Petroleum (Sept)**	707,853	3,528,335	293,432	104,
21	4	[illegible]	6	**Texaco (Dec)**	26,430,355	51,195,830	12,891,408	2,240,

■ Not on 500 list

[5]Figures include unconsolidated subsidiaries

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Share data: 1980 — Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
17,666	22,432	NYSE	SII	3.73	0.62	64⅜	Newport Beach, Cal	10.5	**Jerry W Neely**
57,698	66,465	NYSE	SKL	4.65	1.73	80	Philadelphia, Pa	21.2	**Robert F Dee**
38,995	6,722	NASDAQ	SOCI	3.90	1.32	17¼	Cleveland, Ohio	3.0	**J Maurice Struchen**
37,604	26,261	NYSE	SCG	2.02	1.73	14¼	Columbia, SC	3.3	**Virgil C Summer**
28,299	4,263	NASDAQ	SCNC	4.25	1.20	19	Columbia, SC	2.9	**James G Lindley**
76,987	13,384	NYSE	STB	3.23	0.88	19¾	Miami, Fla	5.8	**Charles J Zwick**
32,288	7,306	NASDAQ	SBNC	2.53	0.92	11½	Birmingham, Ala	2.3	**Wallace D Malone Jr**
97,714	75,854	NYSE	SCE	3.50	2.78	25⅝	Rosemead, Cal	13.5	**William R Gould**
30,425	168,697	NYSE	SO	2.23	1.56	12¼	Atlanta, Ga	27.3	**Alvin W Vogtle Jr**
31,655	20,475	NYSE	NRG	6.85	1.68	70⅛	Birmingham, Ala	5.7	**Henry C Goodrich**
26,068	13,095	NYSE	SNG	5.60	3.60	34⅛	New Haven, Conn	14.4	**Alfred W Van Sinderen**
43,400	26,991	NYSE	SX	5.78	2.60	40⅞	San Francisco, Cal	54.3	**Benjamin F Biaggini**
19,267	15,417	NYSE	SR	11.57	3.68	80½	Washington, DC	21.3	**Harold H Hall**
76,220	23,644	NYSE	SLC	3.29	0.91	20½	Dallas, Tex	44.6	**John P Thompson**
50,892	46,609	NYSE	SRO	1.34	0.31	34⅞	Fort Worth, Tex	0.5	**Jon Brumley**
38,854	6,591	NYSE	SWB	4.51	1.40	37	Houston, Tex	2.7	**John T Cater**
79,003	40,918	NYSE	SY	7.60	1.66	63⅜	New York, NY	89.1	**J Paul Lyet**
09,645	25,531	NYSE	SQD	3.41	1.60	29	Palatine, Ill	22.0	**Mitchell P Kartalia**
58,327	48,527	NYSE	SQB	2.65	1.16	29½	New York, NY	27.0	**Richard M Furlaud**
14,319	21,776	NYSE	STA	3.51	0.70	27	Decatur, Ill	4.3	**Donald E Nordlund**
79,688	28,528	NYSE	SB	3.65	1.60	27⅛	New York, NY	24.2	**F Ross Johnson**
72,000	341,304	NYSE	SD	7.02	1.80	49¾	San Francisco, Cal	37.6	**George M Keller**
17,718	292,362	NYSE	SN	6.54	2.00	79⅞	Chicago, Ill	54.3	**John E Swearingen**
91,183	245,625	NYSE	SOH	7.37	1.40	72	Cleveland, Ohio	22.5	**Alton W Whitehouse Jr**
35,656	2,087	NASDAQ	STBK	10.48	2.10	41¼	Boston, Mass	3.2	**William S Edgerly**
79,043	43,937	NYSE	STF	3.11	1.18	23⅝	Westport, Conn	13.4	**H Barclay Morley**
59,252	60,386	NYSE	STY	2.04	0.90	22¾	New York, NY	25.9	**Dr W Clarke Wescoe**
75,351	14,389	NYSE	STN	1.43	1.17	14¼	New York, NY	41.4	**Whitney Stevens**
38,666	4,046	NYSE	SHP	3.01	1.20	15¼	Boston, Mass	28.0	**Avram J Goldberg**
16,262	27,747	NYSE	STK	1.76	none	22⅝	Louisville, Colo	9.4	**Jesse I Aweida**
15,648	3,067	NASDAQ	SUMI	3.50	1.16	15½	San Francisco, Cal	1.6	**Nimei Akamatsu**
42,281	9,976	NASDAQ	SNBK	2.52	0.82	16¾	Orlando, Fla	4.8	**Richard F Livingston**
42,000	122,202	NYSE	SUN	5.92	1.73	48¾	Radnor, Pa	48.8	**Theodore A Burtis**
78,164	15,077	NYSE	SMB	3.30	1.50	16¾	Chicago, Ill	28.8	**Robert P Gwinn**
34,480	17,717	NYSE	SNS	4.57	1.50	56½	Rockford, Ill	15.6	**Evans W Erikson**
39,062	18,223	NYSE	SVU	3.05	0.73	29⅜	Eden Prairie, Minn	16.6	**Jack J Crocker**
85,771	25,402	NYSE	SOC	13.22	0.72	198	Houston, Tex	5.3	**Joseph E Reid**
56,092	8,662	NYSE	SGL	3.13	0.51	18¼	Woodbridge, NJ	30.0	**Herbert Brody**
40,583	10,147	ASE	SUE	1.37	0.19	55	Dallas, Tex	0.1	**Alvin M Wiederkehr**
30,638	9,527	NYSE	SYY	2.19	0.33	26½	Houston, Tex	5.4	**John F Baugh**
15,518	11,680	NASDAQ	TNDM	1.06	none	76	Cupertino, Cal	1.1	**James G Treybig**
30,809	51,314	NYSE	TAN	2.24	none	49⅜	Fort Worth, Tex	22.0	**Phil R North**
17,472	18,480	NYSE	TEK	4.66	0.86	61⅛	Beaverton, Ore	22.6	**Earl Wantland**
37,805	25,959	NASDAQ	TCOMA	0.34	none	29½	Englewood, Colo	2.3	**J C Malone**
95,967	20,667	NYSE	TDY	15.00	none	144	Los Angeles, Cal	47.8	**Henry E Singleton**
50,565	17,027	NYSE	TP	1.36	none	31⅞	New York, NY	4.5	**Jack K Cooke**
30,946	117,436	NYSE	TGT	5.95	2.45	51⅝	Houston, Tex	106.0	**James L Ketelsen**
23,228	3,923	NASDAQ	TVBC	1.82	0.80	10⅝	Nashville, Tenn	1.9	**William F Earthman**
30,622	13,648	NYSE	TSO	7.15	0.30	21½	San Antonio, Tex	3.5	**Robert V West Jr**
55,874	268,571	NYSE	TX	8.31	2.45	48	White Plains, NY	66.7	**John K McKinley**

Share data adjusted for stock splits and stock dividends through May 11, 1981

Where they rank: 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net pro ($000
217	■	■	■	**Texas American Bancshares (Dec)**	3,370,974	336,415	203,949	28,85
51	487	283	301	**Texas Commerce Bancshares (Dec)**	11,286,924	1,028,646	946,920	101,49
227	122	109	124	**Texas Eastern (Dec)**	3,314,873	4,272,854	1,999,953	219,75
■	269	312	315	**Texas Gas Transmission (Dec)**	1,525,871	2,230,127	840,267	95,08
334	131	69	128	**Texas Instruments (Dec)**	2,413,700	4,074,700	2,807,921	212,20
■	443	55	212	**Texas Oil & Gas (Aug)**	1,533,710	1,186,475	3,419,285	141,11
96	275	137	77	**Texas Utilities (Dec)**	6,552,972	2,174,553	1,789,658	297,84
410	467	113	82	**Texasgulf (Dec)**	2,010,383	1,090,135	1,972,370	286,50
378	164	265	347	**Textron (Dec)**	2,187,400	3,376,700	1,012,225	86,10
445	■	■	■	**Third National (Dec)**	1,884,839	203,964	53,086	13,11
■	■	318	■	**Tidewater (Mar)**	406,633	257,710	822,099	33,06
289	364	■	■	**Tiger International (Dec)**	2,758,425	1,527,968	392,228	42,37
344	205	172	211	**Time Inc (Dec)**	2,370,630	2,881,783	1,457,910	141,20
474	306	177	217	**Times Mirror (Dec)**	1,734,788	1,857,349	1,415,192	139,21
■	401	391	324	**Timken (Dec)**	1,028,443	1,338,499	678,689	92,63
479	■	■	425	**Toledo Edison (Dec)**	1,701,443	401,868	319,850	67,17
■	■	124	■	**Tom Brown (Mar)**	133,228	74,287	1,912,146	4,99
■	243	387	■	**Tosco (Dec)**	872,421	2,387,241	685,282	46,09
239	96	■	■	**Trans World (Dec)**	3,184,975	5,018,281	297,573	20,46
67	118	211	107	**Transamerica (Dec)**	8,887,023	4,384,055	1,222,950	239,30
252	226	186	254	**Transco Companies (Dec)**	3,049,250	2,627,787	1,356,011	120,29
418	■	■	■	**TRANSOHIO Financial (Dec)**	1,969,073	180,625	32,769	2,81
25	43	148	59	**Travelers (Dec)**	21,637,986	8,790,092	1,645,734	365,60
246	■	■	■	**Trust Company of Georgia (Dec)**	3,111,837	337,864	225,227	35,10
276	99	119	129	**TRW (Dec)**	2,854,699	4,983,970	1,940,606	211,89
■	■	■	458	**Tucson Electric Power (Dec)**	1,112,936	320,131	303,394	58,37
■	315	■	■	**Turner Construction (Dec)**	316,576	1,789,107	46,223	7,02
■	■	455	484	**Twentieth Century-Fox (Dec)**	753,913	847,258	553,508	54,50
■	■	458	■	**Tymshare (Dec)**	188,965	235,854	549,171	18,74
■	■	■	449	**U S Air (Dec)**	714,771	971,825	210,823	60,30
178	95	472	■	**UAL (Dec)**	4,041,458	5,041,335	516,600	21,00
485	354	210	179	**Union Camp (Dec)**	1,652,060	1,574,825	1,224,062	165,1
63	36	56	25	**Union Carbide (Dec)**	9,659,000	9,994,058	3,385,192	672,60
490	■	■	■	**Union Commerce (Dec)**	1,624,733	169,240	29,450	5,34
202	474	374	193	**Union Electric (Dec)**	3,552,104	1,077,876	719,109	154,7
90	37	18	27	**Union Oil Company of California (Dec)**	6,772,100	9,984,100	7,742,438	647,00
104	106	19	51	**Union Pacific (Dec)**	6,195,147	4,831,676	7,558,819	404,54
■	256	■	■	**Uniroyal (Dec)**	1,528,672	2,299,463	156,081	–7,84
359	■	■	■	**United Bank Corp of New York (Dec)**	2,274,346	191,553	133,387	27,29
293	■	■	■	**United Banks of Colorado (Dec)**	2,739,878	286,820	155,412	23,67
■	145	■	■	**United Brands (June)**	1,264,015	3,762,580	175,893	31,05
423	129	191	178	**United Energy Resources (Dec)**	1,944,599	4,135,342	1,331,500	165,4
311	■	■	■	**United Jersey Banks (Dec)**	2,628,170	236,592	58,674	14,89
420	■	■	■	**United Missouri Bancshares (Dec)**	1,952,929	165,821	104,742	18,8
148	■	■	463	**U S Bancorp (Dec)**	4,879,030	526,998	391,545	57,5
171	264	222	113	**U S Fidelity & Guaranty (Dec)**	4,247,339	2,252,945	1,189,127	228,50
■	371	464	316	**United States Gypsum (Dec)**	1,114,184	1,474,371	534,237	94,42
■	473	■	■	**U S Home (Dec)**	723,258	1,080,862	432,810	44,30
■	455	■	■	**U S Industries (Dec)**	824,177	1,144,664	193,091	21,1
47	26	96	46	**United States Steel (Dec)**	11,747,600	12,492,100	2,181,960	458,90

■ Not on 500 list

A SUMMARY OF THE 500's RANKINGS

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
	Share data: 1980								
45,537	6,324	NASDAQ	TABS	4.56	1.14	32¼	Fort Worth, Tex	2.3	**Lewis H Bond**
148,488	29,136	NYSE	TCB	3.48	0.80	32½	Houston, Tex	6.1	**Ben F Love**
425,502	25,236	NYSE	TET	8.72	2.95	79¼	Houston, Tex	5.5	**I David Bufkin**
197,893	20,557	NYSE	TXG	4.51	1.55	40⅞	Owensboro, Ky	11.5	**Dennis R Hendrix**
469,500	23,254	NYSE	TXN	9.22	2.00	120¾	Dallas, Tex	87.8	**Mark Shepherd Jr**
324,432	95,144	NYSE	TXO	1.48	0.15	35⅞	Dallas, Tex	2.4	**William L Hutchison**
548,720	96,089	NYSE	TXU	3.18	1.73	18⅝	Dallas, Tex	14.4	**T Louis Austin Jr**
360,260	33,430	NYSE	TG	8.49	1.50	59	Stamford, Conn	6.5	**Richard D Mollison**
154,000	33,882	NYSE	TXT	2.30	1.80	29⅞	Providence, RI	61.0	**Robert P Straetz**
25,671	2,863	NASDAQ	TDAT	4.58	0.96	18⅝	Nashville, Tenn	2.1	**Charles J Kane**
71,071	16,199	NYSE	TDW	2.01	0.66	50¾	New Orleans, La	3.3	**John P Laborde**
171,606	16,870	NYSE	TGR	2.68	0.80	23¼	Los Angeles, Cal	11.3	**Wayne M Hoffman**
236,806	23,280	NYSE	TL	5.02	1.77	62⅝	New York, NY	26.0	**J Richard Munro**
233,334	34,101	NYSE	TMC	4.08	1.44	41½	Los Angeles, Cal	25.6	**Robert F Erburu**
164,525	11,218	NYSE	TKR	8.26	3.25	60½	Canton, Ohio	22.2	**William R Timken Jr**
83,674	20,148	NYSE	TED	2.56	2.20	15⅞	Toledo, Ohio	2.3	**John P Williamson**
20,000	38,727	NASDAQ	TMBR	0.14	none	49⅜	Midland, Tex	0.8	**Thomas C Brown**
86,110	21,669	NYSE	TOS	2.15	none	31⅝	Los Angeles, Cal	2.6	**Morton M Winston**
280,616	16,085	NYSE	TW	–0.05	none	18½	New York, NY	96.4	**L Edwin Smart**
539,792	65,224	NYSE	TA	3.66	1.16	18¾	San Francisco, Cal	29.0	**James R Harvey**
448,949	23,430	NYSE	E	4.72	1.39	57⅞	Houston, Tex	2.5	**William J Bowen**
4,520	3,745	NYSE	TFC	0.75	0.40	8¾	Cleveland, Ohio	0.7	**Warner B Bishop**
,823,511	42,334	NYSE	TIC	8.63	2.48	38⅞	Hartford, Conn	29.3	**Edward H Budd**
58,652	10,066	NASDAQ	TRGA	3.49	0.87	22⅜	Atlanta, Ga	4.1	**Robert Strickland**
408,570	32,010	NYSE	TRW	6.39	2.15	60⅝	Cleveland, Ohio	96.0	**Ruben F Mettler**
101,316	21,671	NYSE	TEP	2.37	1.52	14	Tucson, Ariz	1.1	**Theodore M Welp**
9,320	2,043	ASE	TUR	3.34	1.15	22⅝	New York, NY	2.1	**Walter B Shaw**
78,364	10,543	NYSE	TF	4.89	1.80	52½	Los Angeles, Cal	7.0	**Dennis C Stanfill**
37,493	11,294	NYSE	TYM	1.81	none	48⅝	Cupertino, Cal	5.2	**Thomas J O'Rourke**
110,630	12,047	NYSE	U	4.71	0.09	17½	Washington, DC	10.0	**Edwin I Colodny**
300,728	29,520	NYSE	UAL	0.70	0.25	17½	Elk Grove Township, Ill	70.9	**Richard J Ferris**
278,813	24,299	NYSE	UCC	6.80	2.60	50⅜	Wayne, NJ	16.3	**Peter J McLaughlin**
,211,000	67,367	NYSE	UK	10.08	3.10	50¼	New York, NY	116.1	**William S Sneath**
13,945	3,800	NYSE	UCM	1.18	0.20	7¾	Cleveland, Ohio	1.4	**Lyman H Treadway III**
210,295	66,125	NYSE	UEP	2.10	1.48	10⅞	St Louis, Mo	6.8	**Charles J Dougherty**
415,300	173,500	NYSE	UCL	3.73	0.73	44⅝	Los Angeles, Cal	18.0	**Fred L Hartley**
822,942	95,985	NYSE	UNP	4.22	1.40	78¾	New York, NY	32.7	**James H Evans**
76,072	26,567	NYSE	R	–0.30	none	5⅞	Middlebury, Conn	33.9	**Joseph P Flannery**
33,266	6,587	NASDAQ	UBNY	4.00	1.75	20¼	Albany, NY	2.3	**Peter D Kiernan**
40,557	4,317	NASDAQ	UBKS	5.12	1.66	36	Denver, Colo	3.0	**N Berne Hart**
78,689	10,580	NYSE	UB	2.54	0.35	16⅝	New York, NY	51.2	**Seymour Milstein**
278,595	27,812	NYSE	UER	6.38	1.45	47⅞	Houston, Tex	3.4	**J Hugh Roff Jr**
24,182	5,588	NYSE	UJB	2.69	1.08	10½	Princeton, NJ	2.7	**Edward A Jesser Jr**
25,584	4,232	NASDAQ	UMSB	4.43	0.89	24¾	Kansas City, Mo	1.9	**R Crosby Kemper**
82,104	14,303	NASDAQ	USBC	4.03	0.98	27⅛	Portland, Ore	5.6	**John A Elorriaga**
959,402	28,062	NYSE	FG	8.18	2.70	42⅜	Baltimore, Md	8.7	**Jack Moseley**
146,762	16,189	NYSE	USG	5.78	2.40	33	Chicago, Ill	18.8	**Graham J Morgan**
67,925	14,427	NYSE	UH	3.32	0.56	30	Houston, Tex	3.2	**Guy R Odom**
44,996	23,765	NYSE	USI	0.74	0.76	8⅛	New York, NY	21.4	**Gordon A Walker**
997,000	88,160	NYSE	X	5.25	1.60	24¾	Pittsburgh, Pa	149.2	**David M Roderick**

1 share data adjusted for stock splits and stock dividends through May 11, 1981

Where they rank 1980								
Assets	Sales	Market value	Net profits	Company (fiscal year end)	Assets ($000)	Sales ($000)	Market value of common ($000)	Net profi ($000)
393	■	■	■	**United States Trust (Dec)**	2,074,141	167,565	63,729	10,141
82	28	72	54	**United Technologies (Dec)**	7,326,270	12,323,994	2,663,565	393,383
174	302	208	166	**United Telecommunications (Dec)**	4,205,962	1,911,660	1,226,147	177,336
209	■	■	■	**United Virginia Bankshares (Dec)**	3,454,169	367,327	144,829	31,446
483	320	108	[illegible]	**Upjohn (Dec)**	1,669,621	1,767,636	2,022,773	170,375
198	■	461	345	**USLIFE (Dec)**	3,581,587	788,549	542,149	86,335
391	■	406	284	**Utah Power & Light (Dec)**	2,097,385	609,241	642,307	106,566
■	336	308	438	**Valero Energy (Dec)**	797,210	1,702,047	859,604	64,200
118	■	■	495	**Valley National Bank of Arizona (Dec)**	5,733,280	604,193	361,879	53,211
97	280	260	105	**Virginia Electric & Power (Dec)**	6,491,464	2,119,774	1,037,023	241,620
300	■	■	■	**Virginia National Bankshares (Dec)**	2,704,118	287,533	95,648	20,426
■	■	■	410	**Vulcan Materials (Dec)**	592,699	753,980	477,328	69,859
122	■	■	■	**Wachovia (Dec)**	5,653,613	551,748	255,164	48,287
■	334	273	475	**Wal-Mart Stores (Jan)**	592,345	1,704,761	978,285	55,682
■	420	■	■	**Waldbaum (Dec)**	220,008	1,271,624	35,476	10,828
■	362	■	■	**Walgreen (Aug)**	448,633	1,530,722	276,546	34,813
■	■	91	■	**Wang Laboratories (June)**	578,453	543,272	2,302,642	52,113
466	288	100	221	**Warner Communications (Dec)**	1,768,775	2,059,414	2,146,133	137,091
261	158	154	145	**Warner-Lambert (Dec)**	2,953,895	3,479,207	1,603,178	192,716
253	■	■	■	**Washington National (Dec)**	3,043,322	874,804	259,233	37,366
■	■	217	481	**Waste Management (Dec)**	574,933	560,149	1,201,761	54,855
23	235	403	251	**Wells Fargo (Dec)**	23,638,063	2,545,452	652,023	121,864
■	429	■	■	**West Point-Pepperell (Aug)**	580,665	1,245,569	205,360	42,505
15	169	187	117	**Western Bancorporation (Dec)**	32,110,327	3,296,180	1,354,752	225,064
■	■	202	■	**Western Company of North America (Dec)**	721,826	457,512	1,259,611	52,270
436	■	■	■	**Western Financial (Dec)**	1,904,272	171,741	39,078	3,034
462	■	■	■	**Western Union (Dec)**	1,781,525	794,203	381,647	37,805
89	45	81	52	**Westinghouse Electric (Dec)**	6,812,600	8,514,300	2,514,363	402,900
■	385	433	339	**Westvaco (Oct)**	1,150,611	1,409,911	598,122	87,858
■	430	■	■	**Wetterau (Mar)**	246,623	1,239,150	114,006	13,828
137	116	43	68	**Weyerhaeuser (Dec)**	5,238,692	4,535,814	4,283,643	321,487
427	412	294	478	**Wheelabrator-Frye (Dec)**	1,930,636	1,299,673	890,468	55,300
■	469	■	■	**Wheeling-Pittsburgh Steel (Dec)**	983,372	1,084,052	81,753	14,675
■	265	379	299	**Whirlpool (Dec)**	1,074,521	2,243,181	697,582	101,699
■	290	■	466	**White Consolidated Industries (Dec)**	1,160,096	2,057,336	323,895	57,009
471	■	■	■	**Whitney Holding (Dec)**	1,744,375	170,470	211,761	25,321
■	390	■	464	**Whittaker (Oct)**	784,533	1,396,225	444,034	57,504
498	206	■	■	**[24]Wickes Companies (Jan)**	1,600,000E	2,876,973	186,894	8,276
■	■	465	457	**Willamette Industries (Dec)**	802,879	940,200	532,872	58,858
340	286	179	218	**Williams Companies (Dec)**	2,380,001	2,072,686	1,404,506	138,696
■	81	380	326	**Winn-Dixie Stores (June)**	903,709	5,388,979	694,934	91,950
406	494	■	360	**Wisconsin Electric Power (Dec)**	2,030,241	1,007,145	446,513	82,488
■	447	■	■	**Witco Chemical (Dec)**	630,984	1,175,695	265,648	40,954
241	59	365	185	**F W Woolworth (Jan)**	3,171,894	7,218,176	741,312	160,915
79	50	33	30	**Xerox (Dec)**	7,349,200	8,196,500	5,058,420	619,200
■	484	■	490	**Zale (Mar)**	718,002	1,041,699	311,334	54,025
■	■	351	■	**Zapata (Sept)**	991,652	636,966	758,928	43,627
■	351	■	■	**Zayre (Jan)**	560,737	1,594,235	110,458	18,015
■	444	■	■	**Zenith Radio (Dec)**	655,354	1,185,918	367,809	26,360
486	■	■	■	**Zions Utah Bancorporation (Dec)**	1,651,536	183,720	104,906	17,039

■ Not on 500 list.
E. Estimate.

[24]Formerly Wickes

Cash flow ($000)	Shares outstanding (000)	Where traded	Ticker symbol	Earnings before extraordinary items	Dividends	Market price (Dec. 31)	Corporate headquarters	Number of employees (000)	Chief executive
	Share data: 1980								
15,164	2,999	NASDAQ	USTC	3.38	1.90	21¼	New York,NY	1.5	Daniel P Davison
539,975	43,665	NYSE	UTX	7.28	2.20	61	Hartford, Conn	199.0	Harry J Gray
543,930	71,081	NYSE	UT	2.47	1.56	17¼	Westwood, Kan	29.5	Paul H Henson
45,608	5,389	NASDAQ	UVBK	5.83	1.60	26⅞	Richmond, Va	4.5	Joseph A Jennings
227,062	29,967	NYSE	UPJ	5.71	1.86	67½	Kalamazoo, Mich	21.5	Ray T Parfet Jr
283,578	22,242	NYSE	USH	3.57	0.71	24⅜	New York, NY	4.4	Gordon E Crosby Jr
201,544	39,833	NYSE	UTP	2.35	1.88	16⅛	Salt Lake City, Utah	4.0	Harry Blundell
91,454	22,112	NYSE	VLO	2.44	0.15	38⅞	San Antonio, Tex	1.4	William E Greehey
83,058	10,158	NASDAQ	VNBK	5.26	1.45	35⅝	Phoenix, Ariz	6.8	Gilbert F Bradley
391,803	99,954	NYSE	VEL	1.93	1.40	10⅜	Richmond, Va	10.1	T Justin Moore Jr
40,044	7,085	NASDAQ	VNAT	2.93	1.08	13½	Norfolk, Va	4.3	Clifford A Cutchins III
124,609	11,433	NYSE	VMC	6.04	2.00	41¾	Birmingham, Ala	6.0	W Houston Blount
62,670	14,078	NYSE	WB	3.08	0.91	18⅛	Winston-Salem, NC	5.9	John G Medlin Jr
74,274	32,340	NYSE	WMT	1.73	0.19	30¼	Bentonville, Ark	27.0	Sam M Walton
24,824	2,534	NASDAQ	WALD	4.27	none	14	Central Islip, NY	6.0	Ira Waldbaum
49,060	7,183	NYSE	WAG	5.12	1.62	38½	Deerfield, Ill	28.0	Charles R Walgreen III
98,139	56,162	ASE	WAN B	1.00	0.09	41	Lowell, Mass	11.7	An Wang
188,138	55,206	NYSE	WCI	2.38	0.47	38⅞	New York, NY	9.4	Steven J Ross
291,960	79,661	NYSE	WLA	2.41	1.32	20⅛	Morris Plains, NJ	56.0	Ward S Hagan
432,857	10,233	NYSE	WNT	3.40	0.99	25⅜	Evanston, Ill	6.4	Stanley P Hutchison
107,262	13,134	NYSE	WMX	4.31	0.80	91½	Oak Brook, Ill	9.2	Dean L Buntrock
242,746	22,878	NYSE	WFC	5.33	1.87	28½	San Francisco, Cal	17.5	Richard P Cooley
71,757	4,832	NYSE	WPM	9.32	3.00	42½	West Point, Ga	23.4	Joseph L Lanier Jr
390,595	37,632	NYSE	WBC	5.70	1.79	36	Los Angeles, Cal	30.1	Joseph J Pinola
104,885	22,147	NYSE	WSN	2.48	0.19	56⅞	Fort Worth, Tex	4.6	H E Chiles
771	2,171	ASE	WFN	1.35	0.52	18	Phoenix, Ariz	0.8	Gary H Driggs
182,745	15,738	NYSE	WU	1.80	1.40	24¼	Upper Saddle River, NJ	12.6	Robert M Flanagan
540,800	84,873	NYSE	WX	4.71	1.40	29⅝	Pittsburgh, Pa	145.5	Robert E Kirby
70,920	16,968	NYSE	W	5.20	1.54	35¼	New York, NY	15.7	David L Luke III
23,160	7,415	NASDAQ	WETT	1.83	0.70	15⅜	Hazelwood, Mo	3.4	Ted C Wetterau
50,418	125,528	NYSE	WY	2.47	1.30	34⅛	Tacoma, Wash	45.7	George H Weyerhaeuser
69,232	16,921	NYSE	WFI	4.31	1.40	52⅝	Hampton, NH	25.0	Michael D Dingman
53,199	3,893	NYSE	WHX	2.85	none	21	Pittsburgh, Pa	12.1	Dennis J Carney
37,499	36,238	NYSE	WHR	2.81	1.40	19¼	Benton Harbor, Mich	23.1	John H Platts
93,740	13,288	NYSE	WSW	3.94	1.40	24⅜	Cleveland, Ohio	30.5	Roy H Holdt
34,139	2,139	OTC	–	11.84	4.63	99	New Orleans, La	0.8	Patrick A Delaney
77,411	15,052	NYSE	WKR	3.90	1.00	29½	Los Angeles, Cal	16.0	Joseph F Alibrandi
NA	13,844	NYSE	WIX	0.50	1.04	13½	San Diego, Cal	43.2	Emil L McNeely
104,990	14,802	NASDAQ	WMTT	3.98	1.36	36	Portland, Ore	8.5	Gene D Knudson
87,188	29,725	NYSE	WMB	5.07	1.10	47¼	Tulsa, Okla	7.6	Joseph H Williams
74,682	25,858	NYSE	WIN	3.42	1.80	26⅞	Jacksonville, Fla	60.7	Bert L Thomas
101,418	20,068	NYSE	WPC	3.53	2.49	22¼	Milwaukee, Wisc	6.1	Charles S McNeer
76,426	9,005	NYSE	WIT	4.50	1.50	29½	New York, NY	6.6	William Wishnick
25,000	29,952	NYSE	Z	5.30	1.75	24¾	New York, NY	196.5	Edward F Gibbons
14,700	84,483	NYSE	XRX	7.33	2.70	59⅞	Stamford, Conn	118.1	C Peter McColough
64,402	11,270	NYSE	ZAL	4.50	1.10	27⅝	Dallas, Tex	19.0	Donald Zale
91,229	20,864	NYSE	ZOS	2.19	0.24	36⅜	Houston, Tex	7.5	B John Mackin
43,180	5,198	NYSE	ZY	3.42	0.24	21¼	Framingham, Mass	28.5	Maurice Segall
49,228	18,862	NYSE	ZE	1.40	0.60	19½	Glenview, Ill	25.2	Revone W Kluckman
23,814	3,357	NASDAQ	ZION	4.74	1.04	31¼	Salt Lake City, Utah	1.6	Roy W Simmons

share data adjusted for stock splits and stock dividends through May 11, 1981. NA: Not available

neral Notes: 1) Sales figures exclude excise taxes. 2) Market Value is derived by multiplying the Dec. 31, 1980 closing price of the common stock by the number of shares standing at that date. 3) Cash Flow is total funds provided from operations (including discontinued operations) before extraordinary items. 4) 1980 figures were used for se February fiscal year companies for which 1981 results were not available at press time.

TOTAL TRANSPORTATION.

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GROWING TOGETHER FOR TOTAL TRANSPORTATION

ou're wondering whether the auto industry is really that sick—or oil industry really that healthy—take a look at what happened to ne of the nation's largest employers in 1980.

Jobs: The squeeze comes home

HE 818 LARGEST U.S. EMPLOYERS LISTED BELOW—every company that made at least one of the four FORBES 500 lists—employed a total of 22.6 million men and women U.S. and abroad last year.

s are where the squeeze comes home. If you want to see happened to the auto industry, look at the big three. her, General Motors, Ford and Chrysler had 190,000 employees in 1980 than in 1979.

rofit per employee, the top five were all small oil compa- Pogo Producing, with a profit of $329,500 for each of its mployees, and Mesa Petroleum, with a profit of $146,300 ch of its 651 employees. Then came Supron Energy ($142,500), Southland Royalty ($119,800) and Felmont Oil ($117,100). Exxon's $32,000 was moderate in comparison.

Take a look, too, at a tale of four retailers. Two, F.W. Woolworth and J.C. Penney, are strikingly similar in work force—196,500 for Woolworth, 194,000 for Penney. But Penney got half again the sales and profits per employee in 1980.

Now consider Federated Department Stores and R.H. Macy. Macy is only a little over a third the size of Federated, but productivity of the two track closely: $54,000 in per-employee sales for Federated, $52,700 for Macy; $2,400 to $2,300 in profits. Net margins track, too—4.4% to 4.3%. Moral: Good management and productivity are not a function of size.

Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
American Tel & Tel	1,044.0	48.6 (762)	5.8 (433)	120.2 (407)
General Motors	746.4	77.3 (559)	−1.0 (803)	46.2 (652)
Ford Motor	426.7	86.9 (495)	−3.6 (809)	57.0 (581)
General Electric	402.0	62.1 (670)	3.8 (561)	46.0 (653)
Sears Roebuck	390.0	64.4 (650)	1.5 (731)	72.2 (515)
Intl Tel & Tel	358.0	66.5 (636)	2.5 (658)	79.3 (484)
IBM	341.3	76.8 (561)	10.4 (238)	78.2 (487)
K mart	256.0	55.5 (718)	1.0 (767)	23.8 (782)
Mobil	212.8	279.7 (90)	13.2 (187)	153.7 (380)
General Tel & Elec	201.0	49.6 (757)	2.4 (665)	98.1 (437)
United Technologies	199.0	61.9 (675)	2.0 (694)	36.8 (712)
F W Woolworth	196.5	36.7 (804)	0.8 (775)	16.1 (812)
J C Penney	194.0	58.5 (700)	1.2 (754)	30.2 (758)
Exxon	176.6	584.0 (25)	32.0 (50)	320.3 (310)
Safeway Stores	149.4	101.1 (391)	0.8 (775)	22.3 (790)
United States Steel	149.2	83.7 (514)	3.1 (615)	78.8 (485)
Westinghouse Elec	145.5	58.5 (700)	2.8 (642)	46.8 (646)
Goodyear	144.5	58.5 (700)	1.4 (741)	37.2 (708)
E I du Pont	135.9	100.5 (395)	5.3 (472)	70.4 (524)
RCA	133.0	60.2 (690)	2.4 (665)	53.7 (598)
Eastman Kodak	129.5	75.2 (573)	8.9 (278)	67.5 (535)
ARA Services	120.0	23.4 (816)	0.5 (784)	9.1 (818)
Xerox	118.1	69.4 (611)	5.2 (473)	62.2 (557)
McDonald's	117.0	18.7 (817)	1.9 (699)	22.6 (786)
ederated Dept Stores	116.6	54.0 (729)	2.4 (665)	30.7 (756)

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
26	Union Carbide	116.1	86.1 (502)	5.8 (433)	83.2 (472)
27	Gulf & Western Inds	116.0	46.0 (781)	2.2 (682)	46.7 (647)
28	Kroger	115.0	89.7 (474)	0.8 (775)	17.4 (809)
29	Halliburton	113.6	73.3 (587)	4.4 (531)	41.6 (684)
30	PepsiCo	111.0	53.8 (732)	2.6 (651)	30.8 (755)
31	Rockwell Intl	108.2	63.8 (656)	2.6 (651)	41.0 (688)
32	Boeing	106.3	88.7 (487)	5.6 (448)	55.8 (589)
33	Tenneco	106.0	124.8 (292)	6.8 (384)	130.7 (397)
34	Firestone	96.8	50.1 (754)	−1.3 (805)	32.2 (745)
35	Trans World	96.4	52.1 (744)	0.2 (794)	33.1 (739)
36	TRW	96.0	51.9 (747)	2.2 (682)	29.7 (763)
37	Honeywell	95.9	51.3 (749)	2.9 (633)	40.6 (691)
38	Chrysler	92.6	99.6 (398)	−18.5 (815)	71.5 (517)
39	W R Grace	91.7	66.5 (636)	3.1 (615)	47.6 (639)
40	Bethlehem Steel	89.2	75.6 (569)	1.4 (741)	58.4 (574)
41	Sperry	89.1	53.7 (734)	3.1 (615)	47.8 (638)
42	Consolidated Foods	88.6	60.3 (688)	1.4 (741)	25.5 (777)
43	Beatrice Foods	88.0	94.2 (438)	3.3 (600)	45.2 (658)
44	Texas Instruments	87.8	46.4 (778)	2.4 (665)	27.5 (772)
45	Intl Harvester	87.2	72.4 (591)	−4.6 (811)	67.0 (537)
46	Minn Mining & Mfg	86.9	70.0 (607)	7.8 (329)	58.1 (577)
47	Caterpillar Tractor	86.4	99.6 (398)	6.5 (395)	70.6 (522)
48	General Dynamics	84.4	56.2 (714)	2.3 (674)	28.9 (769)
49	Schlumberger	83.1	58.8 (698)	12.0 (205)	63.1 (553)
50	McDonnell Douglas	82.6	73.4 (586)	1.8 (705)	47.2 (643)

RANKING THE FORBES 500's—JOBS AND PRODUCTIVITY

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
51	BankAmerica	82.3	146.6 (231)	7.8 (329)	1355.6 (65)
52	R J Reynolds Inds	81.5	103.7 (372)	8.2 (308)	90.3 (458)
53	Dart & Kraft	80.0	117.7 (313)	4.8 (498)	58.2 (576)
54	Bendix	78.5	49.2 (758)	2.4 (665)	37.2 (708)
55	Raytheon	77.9	64.3 (652)	3.6 (580)	37.6 (705)
56	Household Finance	77.5	79.8 (540)	1.8 (705)	88.3 (461)
57	Litton Industries	75.4	56.3 (713)	3.9 (551)	43.3 (672)
58	Johnson & Johnson	74.3	65.1 (645)	5.4 (462)	45.0 (660)
59	Motorola	73.9	41.9 (797)	2.5 (658)	28.6 (770)
60	Philip Morris	72.0	101.8 (385)	8.0 (319)	102.3 (430)
61	Singer	71.0	39.2 (800)	0.5 (784)	21.5 (794)
62	UAL	70.9	71.1 (599)	0.3 (792)	57.0 (581)
63	Lockheed	70.6	76.5 (562)	0.4 (788)	34.6 (728)
64	CSX	70.0	69.2 (613)	4.0 (544)	107.5 (426)
65	Ralston Purina	69.8	70.0 (607)	2.3 (674)	32.2 (745)
66	NCR	68.0	48.9 (759)	3.7 (571)	49.5 (627)
67	City Investing	67.3	80.0 (537)	1.6 (724)	114.2 (417)
68	Texaco	66.7	767.0 (19)	33.6 (42)	396.0 (275)
69	Marriott	66.5	25.8 (814)	1.1 (760)	18.3 (806)
70	May Dept Stores	66.0	48.1 (767)	1.8 (705)	34.2 (731)
70	Burlington Inds	66.0	43.9 (790)	1.2 (754)	32.1 (747)
72	General Mills	65.1	64.0 (653)	2.6 (651)	30.9 (754)
73	Lucky Stores	65.0	99.5 (400)	1.4 (741)	21.5 (794)
74	LTV	63.6	125.9 (286)	2.0 (694)	63.4 (552)
75	Great Atl & Pac Tea	63.0	106.1 (357)	−0.1 (798)	19.5 (803)
76	Monsanto	62.9	104.5 (367)	2.4 (665)	92.2 (452)
77	American Stores	62.0	103.5 (373)	0.8 (775)	20.9 (800)
78	Owens-Illinois	61.4	63.7 (659)	2.4 (665)	50.0 (623)
79	IC Industries	61.3	67.5 (628)	2.0 (694)	60.2 (565)
80	Deere	61.0	89.6 (477)	3.7 (571)	85.2 (467)
81	Textron	61.0	55.4 (720)	1.4 (741)	35.9 (719)
82	Winn-Dixie Stores	60.7	88.8 (486)	1.5 (731)	14.9 (814)
82	Procter & Gamble	60.7	177.5 (182)	10.6 (233)	108.0 (424)
84	Pillsbury	59.5	51.0 (750)	1.8 (705)	33.3 (737)
85	Armco	58.8	96.5 (423)	4.5 (523)	64.7 (546)
86	Continental Group	58.3	97.0 (419)	3.8 (561)	91.3 (454)
87	Gulf Oil	58.3	454.6 (39)	24.2 (83)	320.0 (311)
88	McDermott	58.0	56.6 (712)	1.5 (731)	61.2 (563)
89	Burroughs	57.3	49.9 (755)	1.4 (741)	67.3 (536)
90	Control Data	57.1	66.7 (634)	2.5 (658)	115.1 (415)
91	Dow Chemical	56.8	186.9 (168)	14.2 (174)	203.0 (356)
92	Burlington Northern	56.7	69.7 (610)	3.9 (551)	92.9 (449)
93	Interco	56.4	42.0 (795)	2.2 (682)	26.1 (774)
94	Warner-Lambert	56.0	62.1 (670)	3.4 (592)	52.7 (604)
95	Borg-Warner	55.2	48.4 (764)	2.3 (674)	34.4 (730)
96	Carter Hawley Hale	55.0	47.9 (769)	1.1 (760)	30.0 (759)
97	Hewlett-Packard	54.7	56.7 (711)	4.9 (491)	42.8 (678)
98	Southern Pacific	54.3	52.7 (742)	2.9 (633)	98.2 (435)
99	Standard Oil Ind	54.3	481.3 (35)	35.3 (39)	371.4 (287)
100	Eaton	54.1	58.8 (698)	2.1 (690)	42.6 (679)
101	Allied Stores	54.0	42.6 (794)	1.6 (724)	30.0 (759)
102	Emerson Electric	53.8	57.0 (710)	4.4 (531)	35.9 (719)
103	Citicorp	53.7	264.6 (97)	9.3 (268)	2140.0 (30)
104	Atlantic Richfield	53.4	444.6 (43)	30.9 (52)	311.0 (315)
105	General Foods	53.0	112.4 (333)	4.8 (498)	56.2 (586)
105	Kidde	53.0	47.9 (769)	1.6 (724)	30.0
107	Dresser Industries	52.8	76.1 (567)	4.9 (491)	54.9
108	American Brands	52.5	81.5 (530)	7.7 (333)	75.7
109	Greyhound	52.3	91.2 (466)	2.3 (674)	36.4
110	Signal Companies	51.7	83.9 (513)	3.2 (608)	60.0
111	United Brands	51.2	73.5 (584)	0.6 (781)	24.7
112	American Can	51.0	94.4 (436)	1.7 (717)	55.3
113	Digital Equipment	50.0	47.4 (772)	5.0 (486)	53.3
114	American Home Prod	49.8	76.2 (566)	8.9 (278)	47.6
115	Associated Dry Goods	49.8	39.2 (800)	1.0 (767)	20.5
116	Melville	49.7	46.9 (775)	2.3 (674)	17.9
117	American Standard	49.1	54.5 (725)	3.2 (608)	32.1
118	Sun Company	48.8	265.2 (96)	14.8 (169)	224.5
119	Pan Am World Airways	48.6	82.7 (521)	1.7 (717)	69.3
120	Colgate-Palmolive	48.2	106.4 (356)	3.6 (580)	53.5
121	Levi Strauss	48.0	59.2 (696)	4.7 (508)	30.3
122	Teledyne	47.8	82.0 (525)	7.1 (360)	107.6
123	Ingersoll-Rand	47.4	62.7 (667)	3.4 (592)	53.3
124	Allied Corp	46.9	117.7 (313)	6.2 (408)	96.8
125	Combustion Engnrng	46.3	68.0 (621)	2.5 (658)	51.7
126	International Paper	46.0	109.5 (345)	6.8 (384)	112.9
127	Hospital Corp of Am	46.0	26.8 (813)	1.8 (705)	35.0
128	Weyerhaeuser	45.7	99.2 (403)	7.0 (366)	114.6
129	Alcoa	45.6	112.8 (331)	10.3 (239)	113.7
130	American Airlines	45.3	84.3 (512)	−2.8 (807)	72.4
131	R H Macy	45.0	52.7 (742)	2.3 (674)	29.5
132	H J Heinz	44.6	65.5 (643)	3.2 (608)	43.8
133	FMC	44.6	78.1 (552)	3.2 (608)	58.7
134	Southland	44.6	106.7 (354)	1.7 (717)	33.5
135	American Express	44.0	125.0 (290)	8.5 (295)	447.6
136	Georgia-Pacific	44.0	114.0 (325)	5.5 (455)	102.5
136	Northwest Industries	44.0	65.4 (644)	3.5 (586)	51.6
138	Holiday Inns	44.0	34.9 (806)	2.5 (658)	38.2
139	Wickes Companies	43.2	66.6 (635)	0.2 (794)	37.0
140	North Amer Philips	43.2	61.6 (679)	1.7 (717)	35.2
141	Castle & Cooke	43.0	40.3 (798)	0.7 (779)	29.4
142	American Cyanamid	42.6	81.1 (533)	3.7 (571)	68.4
143	Santa Fe Industries	42.5	75.7 (568)	7.1 (360)	101.9
144	Champion Intl	41.9	89.7 (474)	3.9 (551)	79.8
145	J P Stevens	41.4	46.3 (779)	0.5 (784)	25.9
146	Coca-Cola	41.1	143.8 (240)	10.3 (239)	82.8
147	Pfizer	41.1	73.7 (583)	6.2 (408)	81.8
148	Conoco	41.0	446.3 (41)	25.0 (79)	269.2
149	Genl Tire & Rubber	40.8	54.3 (727)	1.0 (767)	44.3
150	Republic Steel	40.7	92.3 (459)	1.3 (748)	74.0
151	CPC International	40.5	101.7 (386)	4.9 (491)	57.5
152	Natl Semiconductor	40.3	24.3 (815)	1.3 (748)	13.9
153	B F Goodrich	40.2	76.5 (562)	1.5 (731)	55.1
154	INA	40.2	130.9 (271)	6.9 (373)	264.1
155	Dayton-Hudson	40.0	100.8 (394)	3.7 (571)	53.9
155	Eastern Air Lines	40.0	86.3 (500)	−1.1 (804)	70.4
157	Aetna Life & Cas	39.1	340.6 (71)	13.0 (191)	914.4
157	Humana	39.1	28.6 (812)	1.7 (717)	33.9
159	Jewel Companies	39.0	109.4 (347)	1.4 (741)	33.0
160	Borden	38.4	119.7 (308)	3.9 (551)	68.8

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Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
161	Norton Simon	38.0	77.9 (556)	3.3 (600)	69.0 (529)
162	Campbell Soup	38.0	67.5 (628)	3.5 (586)	42.9 (677)
163	Standard Oil Calif	37.6	1075.9 (7)	63.8 (11)	588.5 (211)
164	PPG Industries	37.3	84.7 (510)	5.6 (448)	75.8 (499)
164	Dana	37.3	67.7 (626)	2.6 (651)	51.9 (611)
166	Nabisco	37.0	69.4 (611)	3.5 (586)	38.5 (698)
167	Revlon	36.9	59.7 (692)	5.2 (473)	61.3 (561)
168	Reynolds Metals	36.8	99.3 (401)	4.9 (491)	84.2 (469)
169	Shell Oil	36.6	541.9 (28)	42.1 (30)	481.3 (240)
170	Gould	36.5	60.4 (687)	2.0 (694)	44.1 (666)
171	CBS	35.6	111.2 (338)	5.4 (462)	64.6 (547)
172	McGraw-Edison	35.1	64.4 (650)	1.5 (731)	50.8 (617)
173	Delta Air Lines	35.0	84.4 (511)	2.7 (647)	58.3 (575)
174	Bristol-Myers	35.0	90.2 (471)	7.7 (333)	63.1 (553)
174	Kennecott	35.0	64.5 (649)	5.5 (455)	92.3 (451)
174	Blue Bell	35.0	39.9 (799)	1.9 (699)	24.8 (780)
174	IU International	35.0	64.0 (653)	5.1 (477)	39.6 (693)
178	Inland Steel	34.9	93.3 (448)	0.9 (773)	84.8 (468)
179	Occidental Petroleum	34.7	359.2 (65)	20.5 (106)	190.9 (361)
180	Martin Marietta	34.7	75.6 (569)	5.4 (462)	59.7 (567)
181	Avon Products	34.3	74.9 (576)	7.0 (366)	45.8 (655)
182	Gillette	34.1	67.9 (623)	3.6 (580)	50.1 (621)
183	Uniroyal	33.9	67.8 (624)	–0.2 (799)	45.0 (660)
184	National Steel	33.9	109.5 (345)	2.5 (658)	101.8 (432)
185	Emhart	33.5	53.8 (732)	2.0 (694)	29.1 (767)
186	Chase Manhattan	33.5	239.2 (114)	10.6 (233)	2277.7 (26)
187	Penn Central	33.2	60.7 (685)	2.8 (642)	82.1 (478)
188	Celanese	32.8	102.1 (383)	3.7 (571)	80.3 (482)
189	Baxter Travenol Labs	32.7	42.0 (795)	3.9 (551)	43.2 (673)
190	Union Pacific	32.7	148.0 (230)	12.4 (202)	189.7 (362)
191	Phillips Petroleum	32.4	412.5 (51)	33.0 (45)	303.5 (320)
192	Boise Cascade	32.3	93.4 (447)	4.2 (539)	82.9 (473)
193	Hilton Hotels	32.0	17.3 (818)	3.3 (600)	21.8 (792)
194	Merck	31.6	86.5 (498)	13.1 (188)	90.7 (457)
195	Colt Industries	31.3	69.2 (613)	3.1 (615)	45.9 (654)
196	Kimberly-Clark	31.3	83.2 (518)	5.8 (433)	74.4 (503)
197	Crown Zellerbach	31.1	98.7 (406)	3.1 (615)	76.4 (496)
198	Amer Hospital Supply	31.1	75.4 (572)	3.9 (551)	46.9 (645)
199	Abbott Laboratories	31.0	65.7 (641)	6.9 (373)	66.5 (538)
200	Quaker Oats	31.0	77.6 (557)	3.1 (615)	43.0 (676)
201	Johns-Manville	31.0	73.1 (589)	2.6 (651)	75.4 (501)
202	Ogden	30.5	71.7 (594)	1.9 (699)	43.9 (668)
202	White Consolidated	30.5	67.5 (628)	1.9 (699)	38.0 (701)
202	Esmark	30.5	95.9 (427)	15.5 (162)	60.8 (564)
205	Western Bancorp	30.1	109.6 (344)	7.5 (339)	1067.3 (102)
206	Supermarkets General	30.0	87.6 (492)	0.9 (773)	19.1 (805)
207	St Regis Paper	29.7	91.4 (463)	5.7 (443)	89.0 (460)
208	Northrop	29.5	56.1 (715)	2.9 (633)	41.8 (683)
209	United Telecom	29.5	64.9 (647)	6.0 (421)	142.8 (388)
210	Loews	29.4	144.1 (239)	7.6 (335)	310.4 (316)
211	Travelers	29.3	299.6 (84)	12.5 (198)	737.5 (177)
212	Merrill Lynch	29.3	103.2 (375)	6.9 (373)	452.4 (252)
213	Fruehauf	29.2	71.4 (596)	1.1 (760)	52.3 (606)
214	Transamerica	29.0	151.2 (224)	8.3 (303)	306.4 (319)
215	Allis-Chalmers	28.9	71.4 (596)	1.7 (717)	53.6 (599)
216	Corning Glass Works	28.8	53.1 (739)	4.0 (544)	52.1
216	Sunbeam	28.8	48.8 (760)	1.7 (717)	31.0
218	Zayre	28.5	55.9 (716)	0.6 (781)	19.7
219	Morrison-Knudsen	28.2	61.9 (675)	1.1 (760)	23.1
220	SCM	28.0	67.6 (627)	1.9 (699)	36.0
220	Stop & Shop	28.0	73.5 (584)	0.4 (788)	16.9
220	Walgreen	28.0	54.7 (724)	1.2 (754)	16.0
220	Grumman	28.0	61.8 (678)	1.1 (760)	32.4
224	Eli Lilly	27.7	92.4 (458)	12.3 (203)	94.1
225	AMF	27.6	55.6 (717)	2.1 (690)	35.5
226	Pacific Gas & Elec	27.6	190.7 (160)	19.0 (116)	409.5
227	Schering-Plough	27.4	63.5 (660)	8.7 (287)	72.4
228	Southern Company	27.3	137.7 (255)	12.6 (196)	419.5
229	General Instrument	27.1	30.4 (810)	2.5 (658)	23.8
230	Heublein	27.1	52.8 (740)	2.9 (633)	38.7
231	Albertson's	27.0	112.6 (332)	1.5 (731)	23.2
231	Squibb	27.0	62.1 (670)	4.7 (508)	70.6
231	Wal-Mart Stores	27.0	63.1 (662)	2.1 (690)	21.9
234	Avco	26.9	80.0 (537)	4.2 (539)	217.5
235	American Elec Power	26.7	140.9 (247)	13.1 (188)	410.8
236	Pitney Bowes	26.1	48.2 (766)	2.9 (633)	42.0
237	General Signal	26.0	58.5 (700)	4.0 (544)	43.7
238	Time Inc	26.0	110.8 (339)	5.4 (462)	91.2
239	Sterling Drug	25.9	65.6 (642)	4.8 (498)	48.5
240	Kaiser Alum & Chem	25.8	124.8 (292)	9.6 (259)	123.9
241	Fluor	25.8	187.2 (167)	5.1 (477)	66.1
242	Times Mirror	25.6	72.7 (590)	5.4 (462)	67.9
243	Norton	25.3	50.7 (752)	3.4 (592)	37.7
244	Amfac	25.2	76.3 (564)	3.0 (626)	49.0
245	Zenith Radio	25.2	47.1 (773)	1.0 (767)	26.0
246	Wheelabrator-Frye	25.0	52.0 (746)	2.2 (682)	77.2
246	Mead	25.0	108.3 (353)	5.1 (477)	74.7
246	Brunswick	25.0	48.0 (768)	1.0 (767)	37.0
246	Brown Group	25.0	48.8 (760)	1.8 (705)	21.5
250	American Motors	24.9	102.5 (377)	–7.9 (812)	41.3
251	Mfrs Hanover	24.9	208.4 (140)	9.2 (273)	2230.4
252	Beneficial Corp	24.9	103.4 (374)	3.7 (571)	334.0
253	Cooper Industries	24.8	74.3 (579)	5.9 (428)	65.1
254	Dun & Bradstreet	24.7	47.6 (771)	4.2 (539)	31.2
255	Security Pacific	24.6	126.7 (284)	7.4 (348)	1129.7
256	Ashland Oil	24.6	330.0 (73)	8.3 (303)	136.5
257	Jack Eckerd	24.6	63.0 (664)	2.8 (642)	22.4
258	Lear Siegler	24.4	58.4 (704)	2.7 (647)	34.5
259	Standard Brands	24.2	124.7 (295)	4.3 (535)	66.5
260	Harris Corp	24.1	54.0 (729)	3.3 (600)	47.3
261	Walt Disney	24.0	38.1 (803)	5.6 (448)	56.1
262	Owens-Corning Fbrgls	24.0	95.3 (432)	2.3 (674)	64.0
263	Dillon Companies	24.0	86.7 (497)	1.1 (760)	18.2
264	Chromalloy American	23.9	63.5 (660)	1.9 (699)	41.0
265	Consol Freightways	23.4	70.5 (603)	1.8 (705)	33.4
266	West Point-Pepperell	23.4	53.3 (737)	1.8 (705)	24.9
267	Jim Walter	23.2	84.8 (509)	3.2 (608)	96.0
268	Consolidated Edison	23.2	170.5 (187)	14.5 (172)	322.1
269	Whirlpool	23.1	97.1 (416)	4.4 (531)	46.5
270	Norfolk & Western Ry	23.1	68.4 (617)	10.1 (243)	126.8

INDING AN EDGE FOR HE LONG-TERM BORROWER N A SHORT-TERM WORLD.

ative thinking leads to the mobilization apital to serve First Boston's customers.
Robert L. Loverd

Today's fixed-rate bond market is so atile that investors around the world abandoning the bond market in favor uch relatively safe havens as short-n government bills or, at the other reme, such high-risk/high-reward ernatives as stock options, currency ures and commodities.

The Eurobond financing alternative become too substantial to ignore."

Against this background, the Euro-d market has experienced surprisingly ady growth. New-issue volume grew m $14.1 billion in 1978 to $23.9 billion 980. Equally significant, new issues U.S. corporations rose from $1.1 ion in 1978 to $4.1 billion in 1980. ite simply, from the viewpoint of an erican corporate borrower, the robond financing alternative has ome too substantial to ignore.

The factors triggering this dramatic rease in new issues by U.S. corpora-ns are speed of execution and lower rowing costs. The ability to move ftly may have a greater impact on imizing borrowing costs than does credit standing of the issuer. Not only e Eurobond market free of time-suming regulatory reviews, but lerwriters are accustomed to making n commitments within a matter of rs, thereby materially reducing the rower's time exposure to mercurial rkets.

Moreover, foreign investors fre-ntly have different investment criteria n their domestic counterparts. Euro-ns examine the overall prestige of the er in addition to its credit ratings, consider currency values as well as erest rate movements. These factors ult in overseas market opportunities t enable well-informed borrowers ealize substantial net cost-of-money ings. The key, of course, is timing.

Through our alliance with Credit sse First Boston (CSFB), we continu-ly search for opportunities to arbi-ge capital markets. To link the needs U.S. borrowers and overseas lenders, have created such innovative secur-s as the deferred-purchase note (DPN) floating rate notes with warrants ched, both of which attract foreign estors and, at the same time, benefit . borrowers.

Essentially, a DPN is a leveraged urity. At the time of the initial ering, the investor puts up only, say, % of the principal amount of the ds, but that 25% is impacted in the secondary trading market as though it were the full amount. If, for example, a conventional issue were to move from 100 to 105, the market value of a DPN would move from 25 to 30. Were bond prices to decline, the reverse would occur. In effect, a $25 million investment becomes the equivalent of $100 million in terms of market exposure.

The leveraged nature of the DPN entices investors seeking higher risks and higher rewards back into the fixed-rate bond market. Beyond enjoying an enlarged investor universe, the corporate borrower may benefit in two significant ways. If investors do not subscribe to the remaining 75% of their original purchase commitments, the issuer is not required to repay the first 25%. And, because of the leveraged nature of the offering, investors are willing to accept a lower coupon than would be the case in a conventional non-leveraged offering.

"Leveraged securities bring higher-risk investors back into the fixed-rate bond markets."

CSFB has already executed DPN offerings outside the United States for Alcoa of Australia, General Motors Corporation and J.C. Penney Financial Corporation. CSFB's creative structuring of a new security, its ability to commit capital and its willingness to take a stand on markets are best illustrated by the Penney transaction. When the New York bond market closed strongly on Friday, October 3, 1980, First Boston concluded that the rally might not be sustained when American markets opened on Monday. Working over the weekend, CSFB purchased outright and initially for its own account $100 million of 12⅜% 5½-year DPNs and, together with five international underwriters, distributed those securities outside the United States prior to the opening in New York on Monday. The bottom line: Penney Financial completed a financing with a yield of 60 basis points over 5-year U.S. Treasuries, whereas the same transaction completed in the United States would have required a premium over Treasuries in excess of 150 basis points.

Together with CSFB, our International Finance Group is continuing to devise creative securities that financially benefit both the borrower seeking fixed-rate funds and the investor looking for a means to protect his capital.

First Boston
Investment Bankers

aging Director Bob Loverd is also Director of International Finance at our York headquarters: 20 Exchange Place, York, NY 10005. Phone: (212) 825-5790.

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
271	Campbell Taggart	23.0	48.3 (765)	1.6 (724)	19.3 (804)
272	GK Technologies	23.0	51.7 (748)	3.1 (615)	31.9 (750)
272	Gannett	23.0	52.8 (740)	6.6 (391)	52.7 (604)
274	Continental Corp	22.9	149.0 (227)	8.4 (300)	358.1 (293)
275	Hercules	22.9	108.4 (352)	5.0 (486)	82.4 (476)
276	NL Industries	22.7	93.2 (449)	7.4 (348)	78.1 (489)
277	Armstrong World Inds	22.6	58.4 (704)	2.1 (690)	39.4 (694)
278	Tektronix	22.6	43.0 (792)	3.8 (561)	37.3 (707)
279	Cummins Engine	22.5	74.0 (581)	–0.5 (800)	49.6 (625)
280	Standard Oil Ohio	22.5	489.5 (32)	80.4 (7)	536.4 (224)
281	Carnation	22.4	144.3 (237)	6.9 (373)	70.9 (519)
282	Timken	22.2	60.2 (690)	4.2 (539)	46.3 (649)
283	Tandy	22.0	62.9 (665)	5.1 (477)	32.3 (743)
283	Square D	22.0	45.4 (785)	3.8 (561)	33.7 (733)
283	Missouri Pacific	22.0	101.7 (386)	7.5 (339)	124.1 (401)
286	Baker International	21.7	71.2 (598)	6.4 (401)	64.5 (548)
287	Upjohn	21.5	82.1 (524)	7.9 (325)	77.5 (492)
288	U S Industries	21.4	53.6 (736)	1.0 (767)	38.6 (697)
289	Southern Railway	21.3	76.9 (560)	8.5 (295)	148.6 (384)
290	Kellogg	21.3	101.1 (391)	8.7 (287)	55.5 (591)
291	Roadway Express	21.2	54.5 (725)	3.3 (600)	27.6 (771)
292	SmithKline	21.2	83.6 (515)	14.5 (172)	73.3 (508)
293	Koppers	21.0	91.7 (462)	2.6 (651)	65.9 (542)
294	Olin	21.0	88.2 (491)	1.6 (724)	73.8 (507)
295	American Intl Group	20.8	130.3 (274)	13.6 (182)	331.7 (302)
295	Black & Decker	20.8	69.1 (616)	4.3 (535)	56.9 (583)
297	Chesebrough-Pond's	20.6	66.9 (632)	4.9 (491)	44.6 (663)
298	Becton, Dickinson	20.6	45.7 (783)	3.1 (615)	40.8 (690)
299	Parker-Hannifin	20.6	49.7 (756)	2.7 (647)	31.8 (751)
300	Scott Paper	20.5	101.6 (389)	6.5 (395)	98.2 (435)
301	AMAX	20.4	144.7 (236)	23.1 (89)	258.8 (334)
302	ENSERCH	20.2	133.6 (264)	7.4 (348)	108.5 (422)
303	Duke Power	19.6	85.8 (504)	15.9 (156)	322.7 (307)
304	Continental Tel	19.5	64.9 (647)	6.3 (405)	164.1 (372)
305	Crane	19.3	79.3 (544)	2.2 (682)	52.1 (607)
306	Zale	19.0	54.8 (723)	2.8 (642)	37.8 (702)
307	Ryder System	19.0	89.2 (482)	3.0 (626)	86.7 (462)
308	Cities Service	18.9	411.0 (52)	25.2 (77)	282.8 (323)
309	AMP	18.9	61.1 (682)	6.9 (373)	49.2 (629)
310	United States Gypsum	18.8	78.3 (550)	5.0 (486)	59.1 (571)
311	Marshall Field	18.8	53.9 (731)	1.1 (760)	35.8 (721)
312	Libbey-Owens-Ford	18.7	62.0 (673)	1.5 (731)	48.3 (636)
313	Fairchild Industries	18.7	48.5 (763)	2.9 (633)	43.2 (673)
314	Amer Medical Intl	18.4	29.2 (811)	1.8 (705)	29.6 (764)
315	G D Searle	18.3	59.3 (695)	4.7 (508)	61.9 (559)
316	Natl Medical Entrprs	18.1	33.7 (807)	1.6 (724)	32.9 (741)
317	Diamond Intl	18.1	70.9 (601)	2.2 (682)	52.1 (607)
318	Anheuser-Busch Cos	18.0	182.7 (175)	9.5 (264)	135.8 (394)
319	Evans Products	18.0	79.0 (547)	2.3 (674)	49.3 (628)
320	Cessna Aircraft	18.0	55.5 (718)	1.6 (724)	32.3 (743)
321	Polaroid	18.0	80.6 (535)	4.7 (508)	77.4 (494)
322	Mercantile Stores	18.0	61.6 (679)	2.4 (665)	36.3 (715)
322	MCA	18.0	78.0 (555)	7.0 (366)	137.6 (391)
324	Union Oil California	18.0	554.8 (26)	36.0 (37)	376.3 (284)
325	Chemical New York	17.9	240.8 (112)	9.7 (257)	2314.9 (25)
326	Alco Standard	17.8	125.8 (287)	2.9 (633)	41.6 (
327	Rexnord	17.6	61.5 (681)	2.4 (665)	45.1 (
328	Revco D S	17.5	62.4 (669)	2.2 (682)	21.0 (
329	Wells Fargo	17.5	145.8 (233)	7.0 (366)	1353.8 (
330	Foremost-McKesson	17.4	210.4 (137)	3.8 (561)	69.1 (
331	Getty Oil	17.3	586.1 (23)	50.3 (21)	477.3 (
332	Anderson, Clayton	17.3	98.4 (410)	3.0 (626)	50.0 (
333	Oscar Mayer	17.0	104.3 (369)	1.3 (748)	35.8 (
334	EG&G	17.0	36.1 (805)	1.5 (731)	11.7 (
335	Clark Equipment	17.0	90.6 (469)	3.1 (615)	61.3 (
336	Ex-Cell-O	16.8	60.6 (686)	3.0 (626)	41.9 (
337	Sherwin-Williams	16.8	75.2 (573)	1.5 (731)	45.7 (
338	Super Valu Stores	16.6	253.0 (103)	3.3 (600)	35.7 (
339	Foster Wheeler	16.5	94.6 (435)	3.6 (580)	57.6 (
340	Commonwlth Edison	16.4	202.3 (148)	23.2 (88)	677.6 (
341	Union Camp	16.3	96.8 (420)	10.1 (243)	101.5 (
342	Whittaker	16.0	87.3 (493)	3.6 (580)	49.0 (
342	Fisher Foods	16.0	88.3 (489)	0.4 (788)	21.3 (
342	Harsco	16.0	66.5 (636)	3.1 (615)	41.1 (
345	Amer Natl Resources	16.0	190.1 (162)	7.4 (348)	274.2 (
346	Akzona	15.9	66.2 (640)	0.3 (792)	53.2 (
347	Intel	15.9	53.7 (734)	6.1 (414)	48.2 (
348	Ethyl	15.9	109.8 (343)	5.7 (443)	76.2 (
349	Pittston	15.8	130.2 (275)	4.9 (491)	85.4 (
350	Westvaco	15.7	89.5 (478)	5.6 (448)	73.1 (
351	Crocker National	15.7	128.0 (281)	6.1 (414)	1216.4 (
352	Sundstrand	15.6	59.4 (693)	5.1 (477)	50.4 (
353	Fuqua Industries	15.6	102.0 (384)	4.0 (544)	55.4 (
354	Knight-Ridder News	15.4	71.5 (595)	6.0 (421)	56.1 (
355	Hughes Tool	15.3	78.8 (548)	8.6 (291)	90.9 (
356	Marathon Oil	15.2	536.5 (29)	24.9 (80)	330.8 (
357	Crown Cork & Seal	15.2	96.0 (426)	4.8 (498)	57.4
358	Air Prods & Chems	15.2	93.5 (443)	7.6 (335)	115.2
359	Phelps Dodge	15.1	95.7 (429)	6.1 (414)	140.3
360	Louisiana-Pacific	15.0	79.7 (542)	4.0 (544)	74.3
360	First Natl Supermkts	15.0	91.0 (468)	0.4 (788)	13.9
362	Petrolane	14.9	95.4 (431)	5.0 (486)	47.3
363	R R Donnelley & Sons	14.8	75.1 (575)	4.7 (508)	52.1
364	Marsh & McLennan	14.6	46.3 (779)	6.9 (373)	72.7
365	Perkin-Elmer	14.6	68.2 (619)	4.7 (508)	50.7
366	Lincoln National	14.6	184.8 (171)	10.8 (232)	581.4
367	So New England Tel	14.4	57.3 (709)	5.4 (462)	123.4
368	Texas Utilities	14.4	151.1 (225)	20.7 (102)	455.4
369	McGraw-Hill	14.2	70.3 (606)	6.1 (414)	55.2
370	Connecticut General	14.2	371.8 (60)	22.3 (92)	1179.0
371	Braniff Intl	14.2	102.4 (379)	–9.3 (813)	78.1
372	Dravo	14.2	78.7 (549)	1.5 (731)	48.4
373	National Distillers	14.0	122.1 (301)	7.4 (348)	119.9
373	Giant Food	14.0	106.0 (359)	1.3 (748)	25.0
375	Data General	13.9	47.1 (773)	3.9 (551)	46.3
376	NLT	13.8	54.2 (728)	9.6 (259)	319.9
377	Cincinnati Milacron	13.8	59.4 (693)	5.5 (455)	45.6
378	So Calif Edison	13.5	271.1 (94)	23.5 (86)	572.6
379	National Gypsum	13.5	61.9 (675)	4.5 (523)	59.6
380	Stauffer Chemical	13.4	126.9 (283)	10.2 (242)	158.1

The Bell System is giving American orchestras a hand.

The Bell System American Orchestras on Tour program is taking 30 major symphony orchestras to over 240 cities across the United States.

It's our way of helping orchestras reach places and people they might not have reached before –not merely an extension of our business, but a part of it.

Simply put, communication is much more than phone calls. It's anything that can stir a person's heart.

Bell System

RANKING THE FORBES 500's—JOBS AND PRODUCTIVITY

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
381	ACF Industries	13.3	77.6 (557)	3.4 (592)	83.6 (471)
382	Rohm & Haas	13.2	130.5 (273)	7.1 (360)	93.8 (448)
383	Joy Manufacturing	13.2	70.8 (602)	4.5 (523)	55.7 (590)
384	Central Tel & Utils	13.1	68.1 (620)	7.1 (360)	144.0 (387)
385	Engelhard Minerals	13.1	2028.2 (2)	40.7 (31)	481.0 (241)
386	Pennwalt	13.0	91.2 (466)	3.3 (600)	63.7 (551)
387	Rollins	13.0	30.8 (809)	2.7 (647)	21.6 (793)
388	Dillingham	12.9	105.6 (360)	3.0 (626)	61.6 (560)
389	Pub Svc Elec & Gas	12.8	233.8 (118)	21.5 (97)	525.1 (229)
390	Amer Broadcasting	12.8	176.3 (184)	11.4 (219)	110.2 (420)
391	Northwest Airlines	12.7	128.6 (279)	0.6 (781)	120.2 (407)
392	ASARCO	12.7	143.1 (242)	17.0 (138)	161.0 (374)
393	American Natl Ins	12.7	52.1 (744)	5.4 (462)	228.3 (352)
394	Diamond Shamrock	12.7	248.4 (106)	15.9 (156)	220.7 (354)
395	Western Union	12.6	63.1 (662)	3.0 (626)	141.6 (389)
396	Consumers Power	12.6	183.2 (174)	17.8 (129)	499.1 (234)
397	Dover	12.6	66.5 (636)	5.8 (433)	37.8 (702)
398	Crouse-Hinds	12.5	60.3 (688)	3.4 (592)	32.1 (747)
399	PACCAR	12.5	134.4 (261)	6.5 (395)	62.0 (558)
400	Gt Northern Nekoosa	12.4	110.8 (339)	8.0 (319)	97.6 (439)
400	Newmont Mining	12.4	71.1 (599)	15.9 (156)	116.7 (411)
402	National Can	12.3	125.8 (287)	4.5 (523)	66.2 (540)
403	Continental Illinois	12.3	384.8 (56)	18.4 (121)	3433.9 (9)
404	Bankers Trust N Y	12.2	302.8 (83)	17.5 (131)	2803.6 (15)
405	Wheeling-Pitts Steel	12.1	89.3 (481)	1.2 (754)	81.0 (480)
406	Beckman Instruments	12.1	45.4 (785)	3.0 (626)	44.1 (666)
407	Hershey Foods	12.1	110.7 (341)	5.1 (477)	56.7 (584)
408	Northwest Bancorp	12.0	123.0 (299)	9.4 (267)	1197.9 (84)
409	National Tea	12.0	101.6 (389)	0.7 (779)	22.6 (786)
409	Avnet	12.0	105.6 (360)	6.0 (421)	51.6 (613)
409	Middle South Utils	12.0	195.2 (155)	16.3 (153)	611.2 (205)
409	Hammermill Paper	12.0	98.6 (407)	3.4 (592)	59.5 (570)
409	St Joe Minerals	12.0	106.6 (355)	9.8 (253)	147.1 (386)
414	Auto Data Processing	11.9	38.3 (802)	3.2 (608)	30.0 (759)
415	Genuine Parts	11.7	122.3 (300)	5.8 (433)	45.0 (660)
416	Wang Laboratories	11.7	46.6 (777)	4.5 (523)	49.6 (625)
417	Bausch & Lomb	11.6	50.2 (753)	4.5 (523)	35.6 (724)
418	First Natl Boston	11.5	202.9 (147)	8.9 (278)	1386.8 (59)
418	Houston Natural Gas	11.5	205.0 (145)	17.1 (137)	164.4 (371)
418	Amsted Industries	11.5	79.6 (543)	6.2 (408)	39.4 (694)
421	Texas Gas Transmn	11.5	194.2 (156)	8.3 (303)	132.9 (395)
422	General Public Utils	11.4	160.1 (212)	1.8 (705)	440.7 (258)
423	Columbia Gas Sys	11.4	319.0 (76)	15.0 (167)	338.8 (299)
424	J P Morgan	11.3	456.8 (38)	30.2 (53)	4590.8 (3)
425	Tiger International	11.3	135.0 (260)	3.7 (571)	243.7 (345)
426	St Paul Companies	11.2	166.5 (202)	9.8 (253)	379.0 (282)
427	Safeco	11.2	117.6 (315)	9.6 (259)	234.3 (347)
428	Foxboro	11.2	45.5 (784)	2.9 (633)	37.6 (705)
429	Farmers Group	11.2	43.0 (792)	9.6 (259)	126.3 (400)
430	Florida Power & Lt	11.1	211.8 (136)	17.9 (128)	495.5 (237)
431	Kerr-McGee	11.1	314.6 (78)	16.5 (151)	253.9 (338)
432	Kaiser Steel	11.0	80.2 (536)	17.4 (134)	123.3 (405)
433	Food Fair	11.0	102.2 (381)	1.2 (754)	33.3 (737)
433	CBI Industries	11.0	62.0 (673)	6.2 (408)	70.9 (519)
435	Detroit Edison	10.8	167.1 (198)	17.4 (134)	529.3 (226)
436	Interlake	10.8	97.4 (415)	1.3 (748)	64.9
437	Santa Fe Intl	10.8	111.8 (334)	7.5 (339)	129.8
438	Fed-Mart	10.8	98.3 (412)	–0.6 (801)	29.0
439	First Chicago	10.6	322.1 (75)	5.9 (428)	2707.0
440	Intl Minerals & Chem	10.6	168.8 (193)	13.8 (179)	174.4
441	Charter	10.5	430.3 (44)	4.8 (498)	166.3
442	Smith International	10.5	74.8 (577)	7.5 (339)	78.6
443	Central Soya	10.5	166.6 (201)	3.3 (600)	62.9
444	Kemper	10.4	140.4 (248)	8.0 (319)	267.1
445	Iowa Beef Processors	10.4	447.1 (40)	5.1 (477)	49.1
446	InterNorth	10.3	295.6 (85)	20.6 (105)	339.2
447	Pennzoil	10.2	242.3 (111)	30.1 (54)	252.9
448	Marine Midland Bks	10.2	181.5 (176)	5.5 (455)	1706.2
449	Potlatch	10.2	80.0 (537)	4.8 (498)	99.7
450	Va Electric & Power	10.1	209.8 (138)	23.9 (84)	642.5
451	U S Air	10.0	96.7 (421)	6.0 (421)	71.2
452	Baldwin-United	10.0	94.0 (440)	5.4 (462)	259.1
452	Richardson-Vicks	10.0	92.9 (453)	7.4 (348)	69.2
454	First Bank System	9.7	137.4 (257)	11.5 (214)	1385.2
455	Bally Manufacturing	9.7	69.9 (609)	5.5 (455)	67.8
456	Peabody Intl	9.7	70.5 (603)	1.8 (705)	46.3
456	Crum & Forster	9.7	199.2 (153)	16.6 (150)	401.7
458	Lone Star Industries	9.7	93.8 (442)	6.1 (414)	108.4
459	Niagara Mohawk Pwr	9.7	183.7 (173)	16.8 (143)	393.6
460	Cameron Iron Works	9.7	72.2 (593)	8.1 (315)	83.9
461	Phila Electric	9.6	220.4 (129)	23.6 (85)	592.0
462	GATX	9.6	103.2 (375)	6.9 (373)	250.7
463	Deluxe Check Printers	9.5	44.9 (789)	4.7 (508)	27.1
464	Adolph Coors	9.5	93.5 (443)	6.8 (384)	94.1
464	Eastern Gas & Fuel	9.5	105.6 (360)	5.8 (433)	107.4
466	Storage Technology	9.4	63.9 (655)	4.8 (498)	78.2
467	Pacific Lighting	9.4	352.7 (67)	11.3 (222)	282.1
468	Reliance Group	9.4	143.7 (241)	8.4 (300)	285.2
468	Masco	9.4	81.5 (530)	8.2 (308)	91.7
470	Warner Commun	9.4	220.3 (130)	14.7 (170)	189.2
471	Shearson Loeb Rhoads	9.3	70.5 (603)	6.0 (421)	244.9
471	Dean Witter Reynolds	9.3	76.3 (564)	3.9 (551)	201.9
473	E F Hutton Group	9.3	121.7 (303)	8.9 (278)	508.8
474	Waste Management	9.2	60.8 (684)	5.9 (428)	62.4
475	Irving Bank	9.2	189.2 (165)	9.3 (268)	1966.3
476	Alleghany	9.0	129.5 (276)	6.0 (421)	372.6
477	Baltimore Gas & Elec	8.7	141.4 (245)	16.1 (155)	354.4
478	U S Fidelity & Gty	8.7	260.5 (100)	26.4 (69)	491.0
479	Parsons	8.6	89.9 (473)	3.1 (615)	33.5
480	Intl Multifoods	8.5	118.4 (312)	2.2 (682)	50.6
481	Willamette Inds	8.5	110.2 (342)	6.9 (373)	94.1
482	Borman's	8.5	117.3 (316)	0.0 (797)	17.1
483	Houston Industries	8.4	281.9 (88)	21.9 (94)	527.9
484	Amerada Hess	8.4	938.7 (10)	64.4 (10)	703.3
485	Central & South West	8.3	207.5 (142)	22.2 (93)	505.6
486	American General	8.3	276.1 (91)	20.2 (107)	878.7
486	El Paso	8.3	426.9 (47)	–36.5 (818)	360.3
488	Peoples Energy	8.3	365.6 (62)	16.7 (146)	398.6
489	SEDCO	8.1	45.8 (782)	4.7 (508)	82.5
490	George A Hormel	8.1	163.0 (207)	4.0 (544)	43.9

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RANKING THE FORBES 500's—JOBS AND PRODUCTIVITY

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
491	Pacific Pwr & Lt	8.0	122.1 (301)	16.8 (143)	445.4 (256)
491	Fleming Companies	8.0	352.6 (68)	2.6 (651)	43.2 (673)
493	Amstar	8.0	161.1 (210)	3.9 (551)	76.1 (498)
494	Paine Webber	7.9	112.9 (330)	–0.9 (802)	441.3 (257)
495	Raychem	7.9	58.9 (697)	4.6 (517)	51.5 (615)
496	Seafirst	7.7	134.3 (262)	8.8 (284)	1242.1 (73)
497	Pa Power & Light	7.6	115.8 (319)	23.5 (86)	562.5 (217)
498	Chubb	7.6	170.0 (188)	13.9 (177)	361.3 (290)
498	Cabot	7.6	184.7 (172)	20.1 (109)	152.7 (381)
498	Bache Group	7.6	81.8 (528)	3.5 (586)	390.3 (278)
498	Williams Companies	7.6	272.7 (93)	18.2 (126)	313.2 (314)
502	Northeast Utilities	7.6	175.2 (185)	11.7 (211)	479.9 (243)
503	Consol Natural Gas	7.5	332.6 (72)	15.7 (161)	363.5 (289)
504	Zapata	7.5	84.9 (508)	5.8 (433)	132.2 (396)
504	Alexander & Alexander	7.5	54.9 (722)	7.5 (339)	89.8 (459)
506	Ohio Edison	7.4	146.2 (232)	18.3 (124)	538.3 (223)
507	Advanced Micro Devcs	7.3	30.9 (808)	3.2 (608)	22.6 (786)
508	Centex	7.3	145.8 (233)	4.6 (517)	123.6 (403)
509	Bank of New York	7.2	153.1 (221)	6.8 (384)	1447.8 (55)
510	Clark Oil & Refining	7.2	226.1 (121)	6.1 (414)	67.8 (533)
511	No States Power	7.2	161.7 (209)	15.5 (162)	381.5 (280)
512	Malone & Hyde	7.1	261.2 (99)	3.5 (586)	48.8 (633)
512	Gulf United	7.1	95.0 (434)	11.1 (226)	308.3 (318)
514	Twentieth Century-Fox	7.0	120.6 (305)	7.8 (329)	107.3 (428)
515	Gelco	7.0	93.5 (443)	5.8 (433)	274.8 (325)
516	Barnett Banks Fla	7.0	62.5 (668)	5.4 (462)	636.8 (199)
517	Mellon National	6.9	230.9 (119)	16.3 (153)	2339.5 (24)
518	Union Electric	6.8	157.4 (215)	22.6 (91)	518.7 (230)
519	Federal Express	6.8	61.0 (683)	5.7 (443)	58.5 (573)
520	Michigan National	6.8	89.0 (484)	5.9 (428)	846.6 (154)
520	Panhandle Eastern	6.8	363.6 (63)	27.0 (64)	474.8 (247)
522	Valley Natl Bk Ariz	6.8	89.2 (482)	7.9 (325)	846.1 (155)
523	Witco Chemical	6.6	177.5 (182)	6.2 (408)	95.2 (443)
524	Capital Holding	6.6	83.3 (517)	13.6 (182)	395.7 (276)
525	NBD Bancorp	6.5	156.5 (216)	11.4 (219)	1661.9 (46)
526	Sanders Associates	6.5	43.2 (791)	2.9 (633)	36.2 (717)
527	Coastal Corp	6.5	787.3 (16)	16.9 (141)	633.0 (200)
528	Texasgulf	6.5	168.2 (195)	44.2 (28)	310.2 (317)
529	Geosource	6.5	68.3 (618)	5.1 (477)	47.2 (643)
530	Flickinger	6.4	165.5 (203)	1.2 (754)	21.1 (798)
531	Washington National	6.4	136.7 (258)	5.8 (433)	475.5 (246)
532	First City Bancorp	6.4	167.1 (198)	14.0 (176)	1774.8 (41)
532	Carolina Pwr & Lt	6.4	169.3 (189)	25.4 (74)	667.7 (194)
534	Capital Cities Comm	6.3	74.7 (578)	11.2 (223)	82.3 (477)
535	Public Service Colo	6.2	185.3 (169)	13.6 (182)	355.3 (294)
536	No Indiana Pub Svc	6.2	219.1 (131)	11.6 (212)	407.2 (270)
537	Jefferson-Pilot	6.1	131.0 (270)	15.0 (167)	478.3 (244)
538	Wisconsin Elec Pwr	6.1	165.4 (204)	13.5 (185)	333.4 (301)
539	Texas Commerce Bshs	6.1	169.2 (190)	16.7 (146)	1857.0 (38)
540	Vulcan Materials	6.0	124.8 (292)	11.6 (212)	98.1 (437)
541	Waldbaum	6.0	211.9 (135)	1.8 (705)	36.7 (713)
541	Parker Drilling	6.0	63.8 (656)	6.6 (391)	77.5 (492)
543	BancOhio	6.0	85.4 (506)	1.3 (748)	834.9 (156)
544	Wachovia	5.9	93.5 (443)	8.2 (308)	957.6 (125)
545	First Intl Bshs	5.8	236.5 (117)	20.2 (107)	2357.7 (23)
546	Kaneb Services	5.8	111.3 (337)	12.3 (203)	359.7 (29
547	M/A-Com	5.8	55.4 (720)	4.3 (535)	42.0 (68
548	MAPCO	5.8	304.4 (81)	21.0 (100)	254.3 (33
549	Southeast Banking	5.8	104.0 (371)	8.2 (308)	1009.2 (11
550	Republic of Texas	5.8	216.6 (132)	15.1 (166)	2062.0 (3
551	So Natural Resources	5.7	306.4 (80)	24.5 (81)	374.9 (28
552	W W Grainger	5.7	137.5 (256)	8.6 (291)	72.6 (51
553	Allegheny Power	5.6	206.1 (144)	18.4 (121)	535.1 (22
554	Long Island Lighting	5.6	227.3 (120)	36.5 (36)	697.5 (18
555	Citizens & Sthrn Ga	5.6	82.0 (525)	6.3 (405)	772.9 (17
556	U S Bancorp	5.6	93.9 (441)	10.3 (239)	869.2 (14
557	Archer Danls Midland	5.6	501.3 (31)	20.7 (102)	244.3 (34
558	Rainier Bancorp	5.6	102.2 (381)	7.0 (366)	937.1 (13
559	Liberty Natl Ins Hold	5.6	85.5 (505)	11.8 (209)	398.1 (27
560	Datapoint	5.5	57.9 (708)	6.1 (414)	40.6 (69
561	Texas Eastern	5.5	776.9 (17)	40.0 (32)	602.7 (20
562	Big Three Industries	5.5	120.1 (307)	15.8 (159)	148.5 (38
563	New England Electric	5.5	199.1 (154)	13.9 (177)	387.1 (27
564	Bucyrus-Erie	5.4	94.4 (436)	8.9 (278)	115.5 (41
565	GEICO	5.4	134.2 (263)	11.0 (229)	272.5 (32
566	Arizona Public Serv	5.4	141.8 (243)	26.5 (68)	542.2 (22
567	Sysco	5.4	222.1 (126)	3.8 (561)	51.1 (61
568	Ohio Casualty	5.4	158.2 (214)	12.9 (193)	257.3 (33
569	Potomac Elec Power	5.3	161.1 (210)	19.6 (111)	451.0 (25
570	Consolidated Papers	5.3	96.7 (421)	10.0 (246)	73.3 (50
571	Superior Oil	5.3	285.1 (87)	63.7 (12)	659.0 (19
572	Sigmor	5.2	253.1 (102)	9.2 (273)	86.3 (46
573	Tymshare	5.2	45.4 (785)	3.6 (580)	36.3 (71
574	Equitable of Iowa	5.1	79.1 (545)	3.7 (571)	341.9 (29
574	Dow Jones	5.1	104.1 (370)	11.5 (214)	77.8 (49
576	Cleveland Elec Illum	5.0	178.8 (181)	25.1 (78)	619.3 (20
577	Cincinnati G & E	5.0	191.7 (159)	18.1 (127)	454.2 (25
578	Philadelphia Natl	5.0	132.7 (266)	8.1 (315)	1251.2 (7
579	NCNB	4.8	153.6 (219)	9.8 (253)	1485.3 (5
580	Mallinckrodt	4.8	92.0 (460)	7.5 (339)	74.3 (50
581	Ark Louisiana Gas	4.8	203.0 (146)	15.3 (164)	254.1 (33
582	Entex	4.8	202.3 (148)	7.5 (339)	436.3 (26
583	Sun Banks of Florida	4.8	68.0 (621)	5.7 (443)	690.9 (18
584	San Diego Gas & Elec	4.8	201.1 (150)	10.9 (230)	415.7 (26
585	Walter E Heller Intl	4.7	164.1 (206)	9.1 (276)	1218.0 (7
586	NICOR	4.7	370.1 (61)	21.6 (96)	432.7 (26
587	Gearhart Industries	4.7	50.9 (751)	5.7 (443)	50.1 (62
588	Murphy Oil	4.7	422.2 (48)	32.3 (48)	495.6 (23
588	Public Service Ind	4.7	138.6 (253)	26.3 (70)	603.0 (20
590	First Security	4.6	85.4 (506)	8.2 (308)	777.3 (16
591	Maryland National	4.6	90.6 (469)	6.6 (391)	880.3 (14
592	DEKALB AgResearch	4.6	118.5 (311)	9.5 (264)	174.6 (30
593	Western Co No Amer	4.6	99.7 (397)	11.4 (219)	157.3 (37
594	First Pennsylvania	4.5	166.8 (200)	–36.2 (817)	1213.2 (8
595	AmeriTrust	4.5	125.2 (289)	11.5 (214)	1238.5 (7
596	Natomas	4.5	292.4 (86)	46.3 (26)	399.6 (27
596	Teleprompter	4.5	45.2 (788)	5.2 (473)	85.6 (46
598	Duquesne Light	4.5	154.5 (217)	20.8 (101)	547.4 (22
599	United Va Bankshares	4.5	82.3 (523)	7.0 (366)	774.3 (17
600	Colonial Penn Group	4.5	179.7 (177)	11.9 (207)	232.6 (34

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RANKING THE FORBES 500's—JOBS AND PRODUCTIVITY

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
601	Nalco Chemical	4.4	139.8 (251)	16.4 (152)	94.4 (444)
602	USLIFE	4.4	179.2 (179)	19.6 (111)	814.0 (160)
603	A E Staley Mfg	4.3	381.9 (57)	17.0 (138)	171.1 (368)
604	H F Ahmanson	4.3	318.9 (77)	11.2 (223)	3048.7 (14)
604	Medtronic	4.3	62.9 (665)	9.0 (277)	59.7 (567)
606	Virginia Natl Bshs	4.3	66.9 (632)	4.8 (498)	629.5 (201)
607	N Y State Elec & Gas	4.3	151.7 (223)	20.7 (102)	439.9 (259)
608	First Union	4.2	91.4 (463)	6.5 (395)	774.4 (169)
609	Cox Broadcasting	4.2	73.2 (588)	13.4 (186)	109.3 (421)
610	Ideal Basic Inds	4.2	108.9 (349)	12.5 (198)	200.3 (359)
611	Gulf States Utils	4.2	239.1 (116)	27.9 (62)	695.9 (188)
612	BayBanks	4.2	73.8 (582)	6.4 (401)	771.0 (172)
613	Lubrizol	4.2	222.1 (126)	26.8 (66)	156.7 (378)
614	First Wisconsin	4.1	124.0 (297)	7.2 (357)	1091.4 (100)
615	Trust Co of Georgia	4.1	81.8 (528)	8.5 (295)	753.5 (176)
616	DETROITBANK	4.1	128.8 (277)	8.5 (295)	1382.4 (62)
617	Florida Power	4.1	239.2 (114)	16.8 (143)	553.2 (218)
618	Amdahl	4.0	98.1 (413)	3.8 (561)	96.9 (440)
619	Pacific Lumber	4.0	72.4 (591)	10.5 (236)	65.7 (543)
620	Utah Power & Light	4.0	152.7 (222)	26.7 (67)	525.7 (228)
621	Boston Edison	4.0	224.2 (123)	16.9 (141)	451.2 (253)
622	Illinois Power	3.9	225.1 (122)	28.9 (59)	628.6 (202)
623	Reading & Bates	3.9	104.8 (365)	18.5 (118)	183.8 (364)
624	Dayton Power & Light	3.9	167.3 (197)	16.7 (146)	433.6 (262)
625	Manufacturers Natl	3.9	125.0 (290)	7.2 (357)	1238.0 (75)
626	Harris Bankcorp	3.8	189.0 (166)	8.0 (319)	1798.1 (40)
627	Alexander & Baldwin	3.8	115.1 (321)	19.2 (114)	174.8 (365)
628	Fort Howard Paper	3.7	106.1 (357)	18.3 (124)	135.9 (393)
629	Mercantile Texas	3.7	148.6 (229)	12.7 (195)	1463.1 (53)
630	CBT	3.7	88.5 (488)	5.5 (455)	851.2 (153)
631	California First Bnk	3.7	102.5 (377)	4.9 (491)	972.6 (120)
632	Shawmut	3.7	93.0 (452)	4.5 (523)	929.1 (131)
633	Northern Trust	3.7	167.4 (196)	8.5 (295)	1590.6 (49)
634	Combined Internatl	3.7	207.1 (143)	26.2 (71)	352.0 (296)
635	Intl Flavors & Frag	3.6	124.6 (296)	17.6 (130)	115.3 (413)
636	Phila Suburban	3.6	94.1 (439)	10.0 (246)	118.2 (410)
637	First Atlanta	3.6	93.1 (451)	6.6 (391)	884.5 (142)
638	Provident Life & Acc	3.6	273.5 (92)	18.7 (117)	659.7 (195)
639	Oklahoma Gas & Elec	3.5	201.1 (150)	18.5 (118)	497.1 (235)
640	Pittsburgh National	3.5	179.5 (178)	13.7 (181)	1769.0 (42)
641	Tesoro Petroleum	3.5	1008.1 (9)	29.7 (56)	202.2 (357)
642	Florida Natl Banks	3.5	58.4 (704)	4.6 (517)	705.3 (185)
643	AmSouth Bancorp	3.5	80.9 (534)	8.2 (308)	787.4 (164)
644	Girard	3.5	131.1 (269)	9.8 (253)	1269.0 (70)
645	Banco Popular PR	3.4	81.9 (527)	6.9 (373)	767.9 (173)
646	Wetterau	3.4	362.3 (64)	4.0 (544)	72.1 (516)
647	Utd Energy Resources	3.4	1213.4 (6)	48.5 (23)	570.6 (215)
648	Industrial National	3.4	119.1 (309)	8.3 (303)	1014.9 (111)
649	National City	3.4	153.8 (218)	13.8 (179)	1615.7 (48)
650	Midlantic Banks	3.4	91.8 (461)	8.3 (303)	1009.2 (113)
651	First Tennessee Natl	3.3	88.9 (485)	7.1 (360)	870.6 (147)
652	So Carolina E & G	3.3	189.5 (164)	19.1 (115)	541.6 (222)
653	Lincoln First Banks	3.3	105.1 (363)	4.8 (498)	1040.4 (105)
654	Mercantile Bancorp	3.3	141.5 (244)	11.5 (214)	1407.8 (58)
654	Tidewater	3.3	78.1 (552)	10.0 (246)	123.2 (406)
656	Prime Computer	3.3	81.3 (532)	9.5 (264)	70.8 (9
657	Bank of Virginia	3.3	86.2 (501)	3.8 (561)	734.4 (
658	BanCal Tri-State	3.3	121.4 (304)	5.2 (473)	1177.6 (
659	First & Merchants	3.3	78.3 (550)	4.5 (523)	705.8 (
660	Commerce Bancshrs	3.2	86.4 (499)	8.4 (300)	856.4 (
661	Fidelity Union Bncp	3.2	82.9 (519)	7.3 (354)	1019.5 (
662	First Union Bancorp	3.2	131.9 (268)	9.7 (257)	1352.0 (
663	State Street Boston	3.2	101.7 (386)	6.9 (373)	953.5 (
664	U S Home	3.2	343.1 (70)	14.1 (175)	229.6 (
665	Mitchell Enrgy & Dev	3.1	223.2 (124)	32.3 (48)	378.5 (
666	Banc One	3.1	96.3 (424)	10.5 (236)	906.2 (
667	Dominion Bankshares	3.1	82.7 (521)	6.5 (395)	812.4 (
668	ROLM	3.1	65.0 (646)	5.6 (448)	38.1 (
669	Financial General	3.1	79.1 (545)	5.4 (462)	795.4 (
670	Flagship Banks	3.0	69.2 (613)	7.1 (360)	783.3 (
671	Northwestern Finl	3.0	63.8 (656)	4.7 (508)	590.6 (
672	Portland Genl Elec	3.0	162.5 (208)	28.6 (61)	683.4 (
673	Louisiana Land	3.0	349.6 (69)	59.8 (15)	379.6 (
674	Pioneer	3.0	303.2 (82)	30.1 (54)	233.8 (
675	Pall	3.0	46.9 (775)	6.3 (405)	44.2 (
675	First Natl State Bcp	3.0	99.3 (401)	7.0 (366)	1306.2 (
677	Computervision	3.0	75.6 (569)	7.9 (325)	56.5 (
678	Society	3.0	115.1 (321)	8.9 (278)	1160.4 (
679	United Banks of Colo	3.0	97.1 (416)	8.0 (319)	927.2 (
680	Fidelcor	2.9	113.9 (326)	3.9 (551)	1125.6 (
681	South Carolina Natl	2.9	58.3 (707)	6.2 (408)	549.8 (
682	Key Banks	2.9	67.2 (631)	5.9 (428)	867.5 (
683	PennCorp Financial	2.9	165.2 (205)	7.5 (339)	782.0 (
684	Huntington Bshs	2.9	95.9 (427)	7.9 (325)	979.1 (
685	Atlantic Bancorp	2.8	67.8 (624)	5.6 (448)	676.9 (
686	American Petrofina	2.7	765.3 (20)	38.0 (34)	433.1 (
687	First Natl Bancorp	2.7	98.8 (405)	7.6 (335)	913.1 (
688	Freeport Minerals	2.7	243.1 (110)	53.9 (19)	326.2 (
689	Equitable Bancorp	2.7	78.1 (552)	3.4 (592)	756.3 (
690	Commercial Metals	2.7	462.8 (37)	6.7 (389)	80.5 (
691	United Jersey Banks	2.7	86.8 (496)	5.5 (455)	964.5 (
692	Hartford Natl	2.7	90.1 (472)	5.1 (477)	1014.5 (
693	Southwest Bancshs	2.7	140.0 (250)	10.9 (230)	1540.1 (
694	Bancorp Hawaii	2.7	89.4 (479)	9.3 (268)	871.3 (
695	Tosco	2.6	902.2 (12)	17.4 (134)	329.7 (
696	Kansas City Pwr & Lt	2.6	168.7 (194)	26.0 (72)	582.3 (
697	First Maryland Bncp	2.6	98.6 (407)	7.8 (329)	901.9 (
698	Central Fidelity Bks	2.6	74.2 (580)	5.8 (433)	734.4 (
699	Centran	2.6	136.2 (259)	9.3 (268)	1381.3 (
699	Central Bancorp	2.6	86.0 (503)	6.9 (373)	877.3 (
701	First Alabama Bshs	2.5	83.5 (516)	10.0 (246)	776.7 (
702	First American Bank	2.5	79.8 (540)	6.5 (395)	947.9 (
703	New England Merch	2.5	139.6 (252)	8.7 (287)	1142.2 (
704	American Fletcher	2.5	116.8 (317)	7.6 (335)	1058.8 (
705	Marshall & Ilsley	2.5	99.9 (396)	8.0 (319)	978.9 (
706	Transco Companies	2.5	1064.7 (8)	48.7 (22)	1235.5 (
707	Public Service N M	2.5	114.3 (323)	29.1 (57)	594.1 (
708	Texas Oil & Gas	2.4	485.1 (33)	57.7 (16)	627.0 (
709	First Kentucky Natl	2.4	96.1 (425)	8.8 (284)	904.4 (
710	Homestake Mining	2.4	128.2 (280)	43.1 (29)	155.7 (

The cash-flow view of a growing company

Potato chip quality control inspection at Jays Foods, Inc. in Chicago—a typical expanding business with expanding risk management needs.

A business built with an entrepreneur's dreams and drive requires insurance broker planning that capitalizes on every possibility, avoids every pitfall. How Alexander & Alexander looks at a potato chip manufacturer will help explain how we will look at your business. In this case, we look through an owner's eyes. Study the insurance costs of crispness and the effects of the money crunch. Probe for risks in delivery routes and avenues for new plant financing.

Personalized risk management

Only by working from a client's point of view can we be sure a company gets the most comprehensive, cost-efficient programs possible.

This insider's vantage point enables us to assume the function of risk manager for any medium-sized or small business. Protecting against an owner's personal liabilities; planning the funding of workers' compensation, profit sharing, pensions; dealing with life insurance, acquisitions, OSHA requirements; and handling claims as if they were our own.

Each industry has different needs. For insurance, for risk management, for human resources management, for financial services. And each of our 120 offices here and overseas has the facilities, expertise and strength to fulfill the requirements of any company, large or small, in any industry.

We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view.

Alexander & Alexander

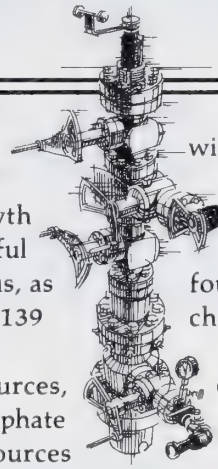
From the client's point of view.

RANKING THE FORBES 500's—JOBS AND PRODUCTIVITY

Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (rank)
711	Tele-Communications	2.3	53.3 (737)	3.5 (586)	149.3 (383)
712	Provident National	2.3	127.2 (282)	12.5 (198)	1185.0 (85)
713	Toledo Edison	2.3	173.2 (186)	29.0 (58)	733.4 (182)
713	Overseas Shipholding	2.3	128.7 (278)	34.1 (41)	460.3 (249)
715	Texas American Bshs	2.3	145.4 (235)	12.5 (198)	1457.4 (54)
715	United Bank Corp NY	2.3	82.8 (520)	11.8 (209)	983.3 (116)
717	First Charter Finl	2.3	415.3 (56)	17.0 (138)	4207.1 (6)
718	Southern Bancorp Ala	2.3	92.6 (454)	8.1 (315)	815.3 (159)
719	Gt Western Financial	2.2	445.4 (42)	17.5 (131)	4579.2 (4)
720	Equimark	2.2	130.6 (272)	4.3 (535)	1289.5 (69)
721	Indiana National	2.2	114.2 (324)	7.5 (339)	1084.5 (101)
722	Riggs Natl Bank	2.2	132.2 (267)	11.1 (226)	1439.4 (57)
722	Central Bancshares	2.2	97.1 (416)	8.7 (287)	943.3 (129)
724	Indianapolis Pwr & Lt	2.2	153.5 (220)	25.6 (73)	489.8 (239)
725	First Empire State	2.1	91.4 (463)	4.6 (517)	867.9 (149)
726	First American	2.1	95.7 (429)	7.2 (357)	888.6 (141)
727	Arizona Bank	2.1	101.0 (393)	7.3 (354)	961.1 (124)
728	Global Marine	2.1	104.7 (366)	21.4 (98)	265.6 (330)
729	Pioneer Hi-Bred Intl	2.1	194.0 (157)	27.4 (63)	164.0 (373)
730	Idaho First Natl Bk	2.1	89.4 (479)	10.0 (246)	910.1 (136)
731	Turner Construction	2.1	858.1 (14)	3.4 (592)	151.8 (382)
732	First Hawaiian	2.1	92.5 (456)	8.2 (308)	893.9 (140)
733	First Florida Banks	2.1	89.7 (474)	8.1 (315)	990.9 (115)
734	Marine	2.1	88.3 (489)	5.6 (448)	951.3 (127)
735	Third National	2.1	98.9 (404)	6.4 (401)	914.1 (134)
736	General Re	2.0	546.4 (27)	76.4 (9)	1808.4 (39)
737	Old Kent Financial	2.0	97.7 (414)	10.1 (243)	970.7 (121)
738	Republic New York	2.0	385.5 (55)	28.9 (59)	3223.5 (12)
739	Brown-Forman Dist	2.0	212.7 (134)	25.3 (76)	231.7 (350)
740	Donaldson, Lufkin	2.0	244.1 (109)	4.4 (531)	1748.6 (43)
741	First Natl Charter	2.0	98.6 (407)	8.6 (291)	1031.1 (107)
742	Belco Petroleum	1.9	429.4 (45)	40.0 (32)	513.8 (231)
743	Tenn Valley Bancorp	1.9	116.3 (318)	4.2 (539)	1113.5 (97)
744	Petrolite	1.9	133.6 (264)	13.1 (188)	92.4 (450)
744	United Missouri Bshs	1.9	87.3 (493)	9.9 (252)	1027.9 (108)
744	Seatrain Lines	1.9	661.8 (22)	−18.6 (816)	480.7 (242)
747	Indust Valley Bank	1.9	104.9 (364)	0.1 (796)	857.2 (151)
748	Cullen/Frost Bankers	1.9	113.9 (326)	7.3 (354)	1133.0 (92)
749	Public Service N H	1.8	190.1 (162)	32.4 (47)	678.7 (191)
750	Natl Central Financl	1.8	108.6 (351)	9.2 (273)	1053.0 (104)
750	Nationwide	1.8	353.8 (66)	19.6 (111)	1539.1 (51)
752	Noble Affiliates	1.8	149.0 (227)	27.0 (64)	244.6 (343)
753	Hospital Trust	1.8	102.4 (379)	4.6 (517)	969.3 (122)
754	Citizens Fidelity	1.8	111.4 (336)	10.0 (246)	1127.8 (94)
755	American B & T Pa	1.8	113.7 (329)	11.1 (226)	1094.9 (99)
756	Allied Bancshares	1.7	169.2 (190)	21.4 (98)	1640.9 (47)
757	Boatmen's Bancshs	1.7	108.7 (350)	9.3 (268)	1231.9 (77)
758	Imperial Corp of Am	1.7	428.9 (46)	24.4 (82)	4415.5 (5)
759	General American Oil	1.6	144.3 (237)	35.7 (38)	284.3 (322)
760	Zions Utah Bancorp	1.6	113.9 (326)	10.6 (233)	1023.9 (109)
761	Sumitomo Bank Cal	1.6	123.1 (298)	6.7 (389)	1213.4 (80)
762	First National Cinc	1.6	120.4 (306)	14.7 (170)	1209.5 (82)
763	Merchants National	1.6	149.6 (226)	8.8 (284)	1447.3 (56)
763	Continental Bank	1.6	126.2 (285)	12.6 (196)	1205.7 (83)

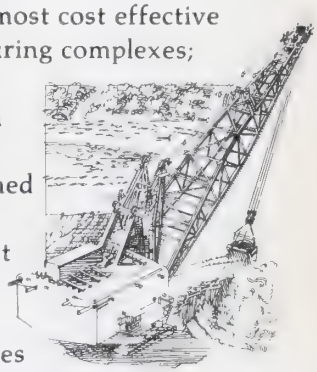
Rank	Company	Employees (000)	Per employee ($000) Sales (rank)	Profits (rank)	Assets (ran
765	MCI Communications	1.6	92.5 (456)	4.6 (517)	198.6 (36
766	Rowan Companies	1.5	169.0 (192)	47.1 (24)	317.6 (31
767	United States Trust	1.5	111.7 (335)	6.8 (384)	1382.8 (6
767	Crown Central Petrol	1.5	844.6 (15)	12.8 (194)	364.3 (28
769	Deposit Guaranty	1.5	109.1 (348)	8.6 (291)	1120.0 (9
770	First United Bancorp	1.5	141.2 (246)	13.0 (191)	1358.9 (6
771	MGIC Investment	1.5	207.9 (141)	55.7 (18)	735.7 (17
772	First Boston	1.5	393.7 (54)	22.8 (90)	4090.0 (
773	Northwest Energy	1.5	909.0 (11)	37.1 (35)	736.3 (17
774	Commonwealth Oil	1.4	888.3 (13)	−10.3 (814)	424.1 (26
775	Union Commerce	1.4	118.7 (310)	3.7 (571)	1139.4 (9
776	Helmerich & Payne	1.4	140.2 (249)	33.4 (44)	264.6 (33
777	Valero Energy	1.4	1215.7 (5)	45.9 (27)	569.4 (21
778	American Security	1.4	200.7 (152)	17.5 (131)	1993.8 (3
779	Alaska Interstate	1.4	193.8 (158)	46.8 (25)	439.7 (26
780	Centl Louisiana Engy	1.3	775.1 (18)	62.5 (13)	797.4 (16
781	Gibraltar Financial	1.3	327.5 (74)	−4.1 (810)	3304.2 (1
782	Houston Oil & Min	1.3	258.1 (101)	61.6 (14)	834.1 (15
783	First Oklahoma Bncp	1.2	178.9 (180)	19.7 (110)	1887.5 (3
784	Petro-Lewis	1.2	92.6 (454)	18.5 (118)	253.8 (33
785	Fedl Natl Mortgage	1.2	4248.7 (1)	11.9 (207)	48888.0 (
786	City Federal S & L	1.2	185.0 (170)	2.8 (642)	1967.4 (3
787	Golden West Finl	1.2	420.2 (49)	33.0 (45)	4830.2 (
788	Tucson Electric Pwr	1.1	280.1 (89)	51.1 (20)	973.7 (11
789	Tandem Computers	1.1	98.4 (410)	9.6 (259)	86.4 (46
790	Dorchester Gas	1.0	584.2 (24)	33.5 (43)	322.7 (30
791	Apple Computer	1.0	115.4 (320)	11.5 (214)	64.4 (54
792	Old Stone	1.0	160.0 (213)	11.2 (223)	1737.5 (4
793	First Mississippi	1.0	249.7 (105)	21.8 (95)	243.4 (34
794	Fidelity Financial	0.9	313.5 (79)	−1.5 (806)	3169.6 (1
795	Liberty National	0.9	190.2 (161)	12.0 (205)	1975.2 (3
796	Whitney Holding	0.8	208.7 (139)	31.0 (51)	2135.1 (3
797	Western Financial	0.8	213.1 (133)	3.8 (561)	2362.6 (2
798	Fin Corp of America	0.8	223.0 (125)	15.8 (159)	2224.0 (2
799	Tom Brown	0.8	95.2 (433)	6.4 (401)	170.8 (36
800	Amer Savings & Loan	0.8	244.9 (108)	6.0 (421)	2537.3 (2
801	TRANSOHIO Financial	0.7	246.8 (107)	3.8 (561)	2690.0 (1
802	No Calif Savings	0.7	263.8 (98)	5.0 (486)	2656.1 (2
803	Fin Cp Santa Barbara	0.7	252.9 (104)	0.5 (784)	2711.5 (1
804	Broadview Financial	0.7	240.8 (112)	−3.1 (808)	2689.0 (1
805	Inexco Oil	0.7	222.1 (126)	34.2 (40)	825.8 (15
806	Cray Research	0.7	93.2 (449)	16.7 (146)	160.3 (37
807	Mesa Petroleum	0.7	504.3 (30)	146.3 (2)	2191.8 (2
808	Financial Federation	0.6	375.7 (58)	4.8 (498)	3884.5 (
809	Energy Reserves Gp	0.6	267.7 (95)	25.4 (74)	465.5 (24
810	Southland Royalty	0.5	704.9 (21)	119.8 (4)	1178.8 (8
811	Adobe Oil & Gas	0.4	406.3 (53)	56.4 (17)	731.4 (18
812	Amer Quasar Petroleum	0.3	138.3 (254)	15.2 (165)	646.8 (19
813	Sabine	0.3	373.8 (59)	78.6 (8)	760.1 (17
814	Delhi Intl Oil	0.3	104.4 (368)	18.4 (121)	325.0 (30
815	Pogo Producing	0.2	1343.9 (4)	329.5 (1)	3374.5 (
816	Supron Energy	0.1	470.0 (36)	142.5 (3)	1099.4 (9
817	Felmont Oil	0.1	482.3 (34)	117.1 (5)	1033.4 (10
818	McRae Consol Oil&Gas	0.1	1594.2 (3)	104.9 (6)	1246.8 (

Why Williams
s Worth Watching in the '80s.

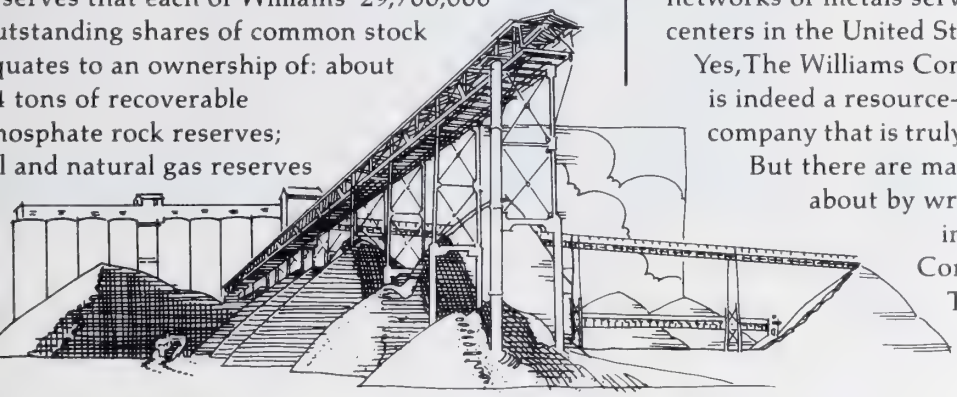


ne good reason is because we're rich in esources. During the '70s we set out to osition ourselves as a resource-rich growth ompany of the '80s. We have been successful ith this strategy and it's paying off for us, as videnced by record 1980 net income of $139 illion, double that of the previous year.

Today, we are strong in natural resources, ith increasingly valuable reserves of phosphate ock, oil, natural gas and coal. These resources rovide us considerable promise for continued progss in the '80s and beyond. So extensive are these eserves that each of Williams' 29,700,000 utstanding shares of common stock quates to an ownership of: about 4 tons of recoverable hosphate rock reserves; l and natural gas reserves with an energy equivalent of nearly a barrel of oil; and some 75 tons of coal reserves. We also have many other valuable assets which we consider major resources for the '80s. We own and operate four of the nation's largest, most cost effective chemical fertilizer manufacturing complexes; a successful oil and gas exploration and production company; the world's largest independently owned petroleum products pipeline system; and one of the largest networks of metals service centers in the United States.



Yes, The Williams Companies is indeed a resource-rich, growth company that is truly "worth watching in the '80s." But there are many more reasons you can learn about by writing L. R. Francisco, manager-investor relations, The Williams Companies, One Williams Center, Tulsa, OK 74172. Ask for a copy of our 1980 Annual Report.



We are rich in resources.

THE FERTILIZER, ENERGY AND METALS COMPANY
Agrico Chemical Company • Williams Exploration Company
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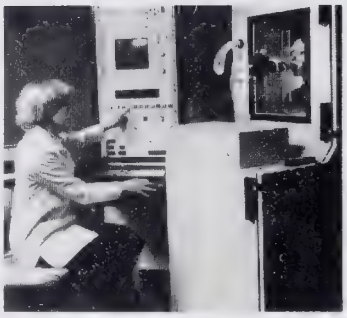
WILLIAMS

Gould adds pulmonary diagnostics to its medical electronic capabilities.

The acquisition of SRL Medical Inc. opens new and promising markets for Gould's medical products division.

SRL Medical is a leading manufacturer of computerized instrumentation systems for analysis and diagnosis of pulmonary functions. Its broad product line has been developed to meet the growing needs of both large and small hospitals worldwide.



Part of a growing market.
The worldwide market for medical equipment was about $3.1 billion in 1980, and is forecast to grow at about 13% a year through 1984.

The specific markets served by Gould should grow even faster. They totaled more than $200 million in 1980 and are estimated to grow at an annual rate exceeding 21% through 1984.

The Gould electronic "building block" strategy.
We make the electronic products needed to harness the power of technology. And we're focusing on five areas where this technology has great impact: factory automation, test and measurement equipment, medical instrumentation, undersea defense, and advanced components and materials.

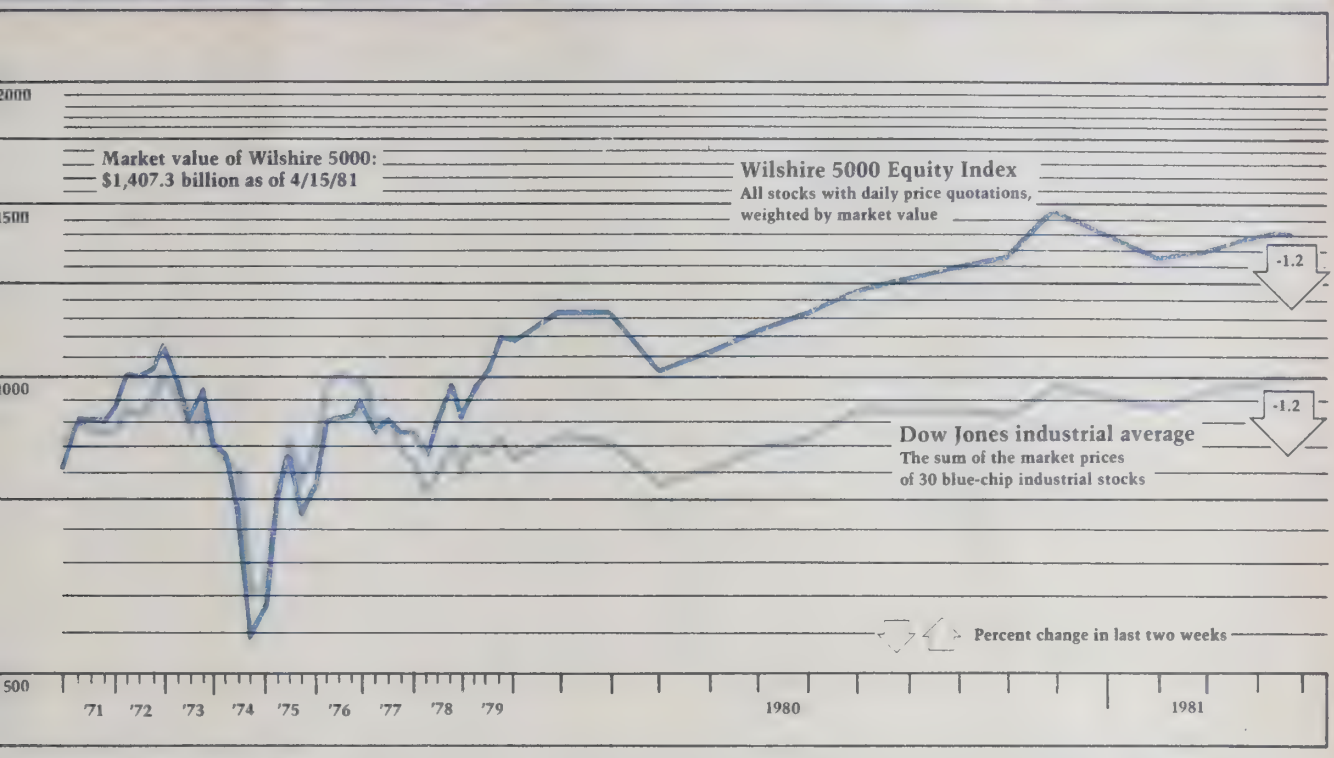
The acquisition of SRL Medical clearly fits into this strategy. Gould already manufactures transducers, which convert blood pressure into electrical impulses, and systems used in coronary and intensive care units.

If you'd like to know more about Gould's strategy of electronic building blocks, please write Gould Inc., Investor Relations, Department C-4, 10 Gould Center, Rolling Meadows, IL 60008.

GOULD

An Electrical/Electronics Company

The Forbes/Wilshire 5000 Review



s the rally losing steam? The Wilshire's two-week lecline marks the first dip since January. In the recent ally, despite the Dow's daily flip-flops, the strength of the Amex and NASDAQ has pulled the overall market head—but that trend seems to be weakening.

Investors are plainly confused, changing their minds egularly about whether the future is real growth and tability or double-digit inflation and crippling money osts. The immediate question is the direction of interest ates: Bears think the recent rebound is the start of a surge hat will set the prime soaring again. Bulls, on the other and, see rates as merely wavering from a downward path.

With that in mind, it isn't surprising that Wall Street has yet to chart any firm course for 1981. The recent reversal of leadership—away from last year's laggards and back to the sorts of stocks that led the 1980 rally—underscores this confusion. Once, of course, energy issues were valued as the ultimate inflation hedge. Now, that notion has been rejected. The search is on for industries—like airlines, consumer goods or insurance—which could benefit from more stable price levels. But their chance to lead the market won't come easy: First investors must agree on what these new pacesetters are. And then inflation must actually appear to be subsiding.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	1.6	0.8	0.6	4.2	5.4
in last 52 weeks	36.4	29.9	34.2	51.6	58.4

Stock performance based on five key investor yardsticks

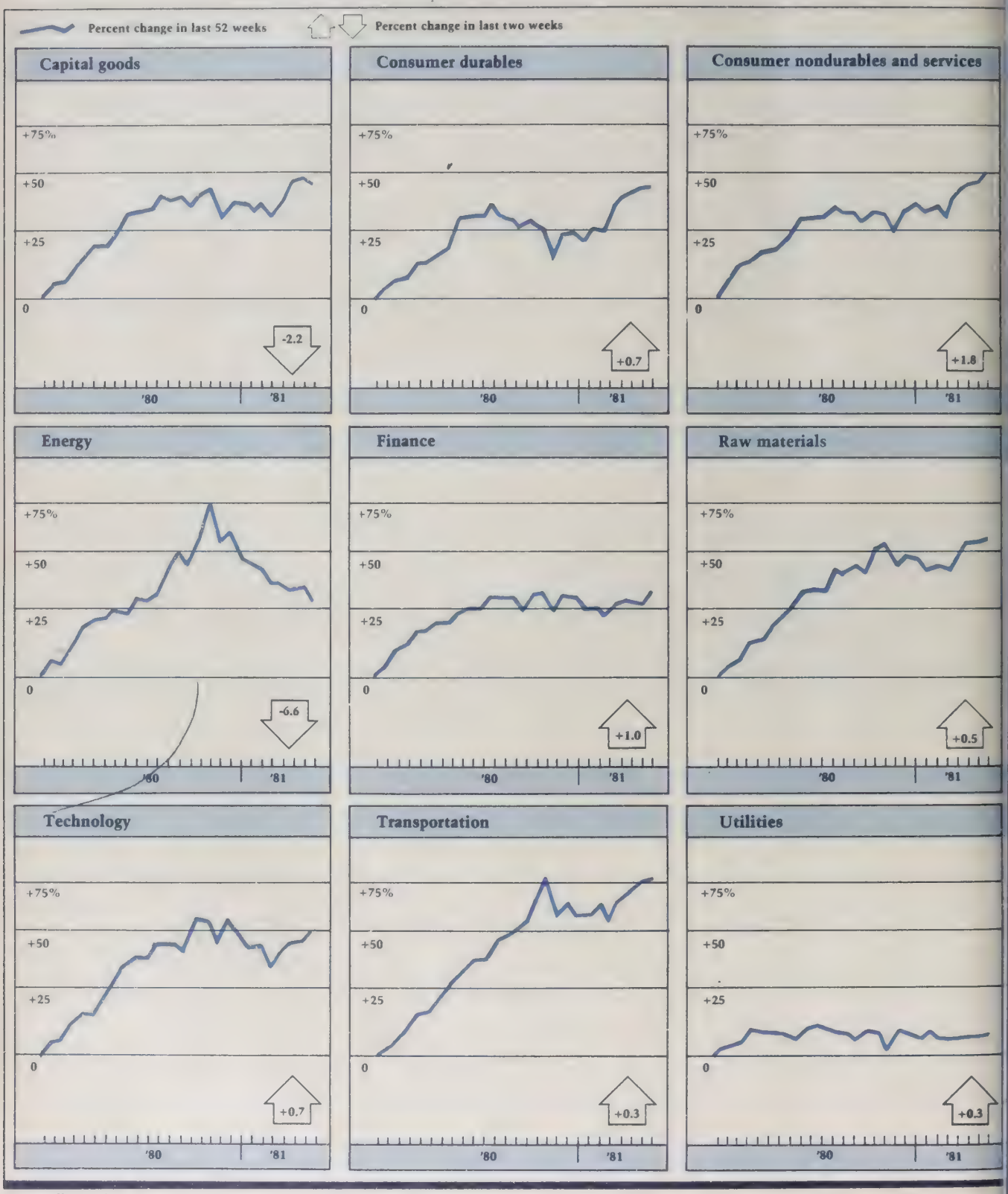
Percent change	Volatility *		P/E multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none		low	over $40	under $4
in last 4 weeks	7.1	2.5	4.1	4.5	2.8	7.6	6.6	3.9	2.6	8.4
in last 52 weeks	94.5	23.6	88.0	41.2	18.7	68.8	77.5	37.6	43.5	65.7

A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 4/15/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Looks can be deceiving. The two best performing groups over the past year are raw materials and transportation—each up well over 50%. But both are special situations. Takeover bids sent shares in most mineral-rich companies soaring, and the transportation sector got a double boost. Western railroads led 1980's rally because oil holdings made them energy plays; airlines are strong now because they should benefit if an oil glut pushes fuel prices down.

A better bullish indicator is the current strength in consumer nondurables, a sector that includes drug, food and merchandising companies. For the most part, these stocks are rising because business is good, dividends are solid and multiples are attractive. Such is the stuff of lasting gains. Are some new stars about to twinkle?



Note: All data for periods ending 4/15/81. Prepared by Wilshire Associates, Santa Monica, Calif.

1955. Robert Beck, newly appointed regional supervisor for The Prudential Insurance Company of America.

Bob Beck, when did you start reading The Wall Street Journal?

"I was appointed a regional supervisor for Prudential in 1955," says Robert Beck, Chairman and Chief Executive Officer of The Prudential Insurance Company of America. "From that time on, I've read The Wall Street Journal every business day.

"I don't think there is a reasonable substitute anywhere. There is really nothing on a daily basis that gives you the coverage and the education you can get from The Wall Street Journal."

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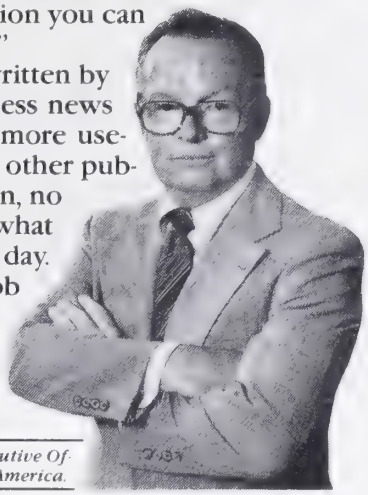
People at the top, like Bob Beck, and people who want to get there, need the kind of business news found only in The Wall Street Journal.



Today. Robert Beck is Chairman and Chief Executive Officer of The Prudential Insurance Company of America.

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$550,000,000

General Motors Acceptance Corporation

$400,000,000 6% Debentures Due April 1, 2011

Price 44.51% and Accrued Interest

$150,000,000 14⅜% Senior Subordinated Notes Due April 1, 1991

Price 99¼% and Accrued Interest

Interest payable April 1 and October 1

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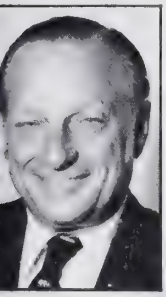
April 2, 1981

omas & Nettleton has a new wrinkle in EITs. Institutional investors didn't seem to are for it. Individuals, though, should.

A NEW BREED OF REIT

By Ben Weberman



THE LARGEST mortgage banking company in the U.S., Lomas & Nettleton Financial Corp., has come up with a new wrinkle in real estate investment trusts. If investors go for it, it would be good news for apartment house builders, for whom the pital markets have had only bad ews for several years now. The Lomas & Nettleton REIT would gather oney for use in the mortgage market nd place it as low-rate mortgage ans to builders, take a share of any crease in rent rolls after the proper- is occupied and then take a share of ny gain in property value. L&N's rms would seek to protect investors gainst both inflation and deflation. he inflation protection comes by ay of participating in rent-roll inreases and sharing in appreciation of e property's value. The deflation otection has two aspects. First, a turn averaging, say, 12% on mortages made now may be 4% or so less enerous than the current going rate f you can find a lender), but it would ok good if interest rates should drop 8% or 10%. Second, the deflation sk arises in the event of a deep deession, one in which vacancies rise bstantially. The REIT covers this by aking the developer responsible for ortgage payments, regardless of ntal success.

Is there a market for L&N's new rinkle in REITs? Goldman, Sachs & o. found out the hard way that if ere is a market, it's likely to be with dividual investors, not with institutions. Goldman, Sachs assured L&N at it would sell 6 million shares at 50 each, a total of $300 million, in blocks of $150,000, or 3,000 shares. But it quickly learned that institutions with that kind of money prefer to do their equity mortgage financing directly. As a result Merrill Lynch, Pierce, Fenner & Smith Inc., the big retail warehouse, took over the assignment and Goldman resigned. The offering was restructured to 4 million shares at $25 each. New York restricts sale initially to blocks of $150,000 until 50% of the offering has been committed to mortgages. Thereafter, the stock may be broken up into smaller blocks for stock exchange listing.

L&N Housing Co., to give the new REIT its proper name, hopes to avoid problems encountered by the first generation of REITs. It will not borrow short term to lend long term. That game works only when short rates are lower than long-term yields.

L&N, furthermore, will not invest money in projects under construction. This avoids the need to take over unfinished housing and complete it, as so many REITs did in the early 1970s.

The preliminary prospectus establishes stiff ground rules: Lend money only on first mortgages; invest only with experienced developers; invest only in rapidly growing Sunbelt cities; and only for construction close to employment centers and only in areas without rent control. Southern California will get no cash.

The L&N Housing plan calls for multifamily residential rental project loans carrying an interest rate of only 11% to 13% (*vs.* a going rate of 15% to 16% or more on straight credits). The loans will run for seven to ten years, drawing monthly interest but little or no amortization during the period. In return for this cheap money, L&N receives the right to a 20% to 25% share in any increase in gross rents and also picks up 40% to 60% of any increase in the value of the property realized through sale or refinancing.

How does this work out? Assume a $5 million mortgage at 12%, a 25% participation in any increase in gross rents, a 50% participation in appreciation in the value of the project. Assume, too, that rental income rises from $850,000 in the first year to $1.5 million in the seventh year. The L&N 25% share would rise from $21,000 in the second year to $164,000 in the seventh year. In effect, then, the $600,000 interest would grow to $764,000 annually during the period.

Now, assume the $6 million project—against which the $5 million mortgage had been arranged—grows in market value to $12.2 million in seven years. Sell it at that value, meet a 10% selling cost, pay off the $5 million mortgage, and the net profit comes to $6 million, of which the REIT is entitled to half. That $3 million capital gain over seven years would bring the compounded rate of return on the initial $5 million mortgage to about 20%. When distributed to stockholders, part would be taxed as long-term capital gains.

L&N believes these are reasonable assumptions. Single-family housing has priced itself out of the market for first-time home buyers, for two-wage-earner families and for single-person households. These persons need smaller, more affordable homes in which to get started.

One objective, stated in the prospectus, is that each project will be located, designed, constructed and maintained with a view toward facilitating eventual conversion and sale to owner-occupants. It's not unusual in today's market for an apartment house sold to owner-occupants to sell for 50% more than the house was worth as rental premises. In real estate terms, a one-bedroom apartment of 1,000 square feet built at a cost of $40,000 may be worth $60,000 to $65,000 to the occupant. Conversion is the name of the game.

The explosive growth of low-coupon and zero-coupon bonds, described in a previous column (FORBES, *Apr. 27*), is a good reason to repeat here a warning word about the tax and cash flow consequences. The securities are issued at a price of about 45 with a 6% or so coupon repayable at 100 in 30 years, or at a price of about 2 with a 0% coupon repayable at 100 in 8 to 10 years. Annual appreciation of the price is classified as interest, not capital gain, by the Internal Revenue Service. Furthermore, there is no cash flow but only increments of price. Buyers of these bonds won't be able to live off the interest. And there's no cash flow to compound. ■

n Weberman is economics editor of FORBES *agazine.*

Sometimes you yearn for the good old days when you wondered whether to invest in American Tobacco or in Coca-Cola.

MUSINGS

By Heinz H. Biel

EVERY SO OFTEN one should get away from the pressures of daily routines to relax and do some serious reading and thinking, things you can't do at your Wall Street desk. The relaxing part is easy: I can spend a lot of time doing exactly nothing. A truly good book is priceless, of course. I chose Oriana Fallaci's *A Man*, an extraordinary book, plus a couple of whodunits for complete relaxation.

However, I also read some annual reports. Those of us who belong to the generation that grew up when, for instance, radio listening meant getting some scratchy sounds on earphones whenever the needle hit the right spot on the crystal will remember that an annual report meant just a balance sheet, a rather condensed income statement and perhaps a letter to shareholders that usually said what the shareholder wanted to hear. (That's the only thing that hasn't changed over the years.) Stockbrokers hired "statisticians" to gather the available information, meager as it was. Professional securities analysis did not come into being until the late 1930s.

One of the reports I read while on vacation was that of Exxon Corp. Its 52 pages bulge with information. It answers any conceivable question you may have, if you know where to find it. But the Exxon report frustrated me. How can one analyze, or even comprehend, a company so huge and so complex? Exxon is doing a business of well over $100 billion. Its assets total $56 billion, there are more than 400 million shares outstanding and bonds in a dozen different currencies. It has 177,000 people on its payroll in nearly 100 countries around the world.

The frustration begins right on page one with Financial Highlights. That should be easy, you think. Wrong! There are two sets of figures, the first is unadjusted for inflation and the other is adjusted for inflation. One gives the return on shareholders' equity as 23.6%, the other as 12.6%. Equity per share is either $58.81 or $95.65. Take your pick.

By the time you come to the details of financial and operating data of this monstrous company, you are swamped by vast numbers and statistics and ready to give up any attempt at evaluation. This goes for me, too, and I am not exactly a neophyte in the field of corporate finance. Individual investors might as well save their time, look only at reported earnings per share (unadjusted) and the dividend rate, and hope that they can put their trust in the integrity of the company's management and in the competence of the accountants.

Even FORBES can cause frustration at times. Although Editor Jim Michaels does his level best to have the stories written in such a way that a nonprofessional can understand what it is all about, it confounds me to read about "powerful Nd-YAG (neodymium-doped yttrium-aluminum-garnet crystal) lasers." Come to think about it, it may be easier to understand genetic engineering. Sometimes you yearn for the good old days when you wondered whether to invest in American Tobacco or in Coca-Cola.

Investing in new fields of science and technologies can be enormously profitable. We look at the record of some of those companies and ask ourselves: Why didn't I buy that one instead of sitting on my AT&T? But what we see are only the ones that have succeeded. A far larger number never make it and fall by the wayside, as any venture capitalist will confirm.

The scourge of inflation, which, I am afraid, is not likely to abate significantly in the years ahead, aggravates the difficulty of investing. This goes far beyond the question of whether to invest in bonds or stocks. Bonds, and that applies to all dollar-denominated investments, such as insurance or annuities, have to be ruled out in an era when money is losing its buying power as fast as it does now. However, even stocks are not immune to the inroads of inflation. As the annual reports of Exxon and many other companies show, "inflation accounting" can have a material effect on the numbers you are looking at.

This is a rather controversial subject, and there is no unanimity among corporate managers, accountants or securities analysts, as to whose figures are more valid as a basis for investment appraisal. What does matter, however, is that the concept of *growth* has to be adjusted to inflation. *Record* sales and *record* earnings often are only a meaningless reflection of rising prices, unless the increases exceed the rate of inflation. That is why you have such low price/earnings ratios for the stocks of so many "nice" companies that year after year report higher sales, higher profits and higher dividends, but whose actual, *real* growth may be only 5% or so. That isn't good enough these days.

As soon as the corporate growth rate rises above the inflation rate, there seems to be no limit for the earnings multiples of such stocks. You can buy IBM at 10 times current earnings and get a 5.7% dividend return, but the multiples for stocks like Amdahl, Cray Research or Tandem Computers are in the 40-to-60 range. These are indeed stiff premiums for rapid growth, but so long as inflation remains a serious threat to conventional investing, even conservative investors may have to leaven their portfolios with stocks of this character, despite the far greater risk and the absence of meaningful dividends.

There is general agreement that a 2½-month interregnum from Election Day to the inauguration of a new president is too long and not beneficial for the country. Such time lags are rare in corporate life. Yet, RCA Chairman Ed Griffiths, who resigned in January, effective July 1, seems to want to stay on as a lame duck until the bitter end, while his successor Thornton Bradshaw twiddles his thumbs. This is not in the best interest of the company, and the poor action of the stock is clear evidence that shareholders are concerned. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

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CAPITAL GAINERS

By Ann C. Brown

AT THE MOMENT it looks like there are enough votes in Congress to go along with a substantial cut, from 70% to 50%, in the tax on unearned income (which could lower the max tax on long-term capital gains from 28% to 20%). Chairman Rostenkowski and other Democrats on the House Ways & Means Committee have indicated they are willing to offer that as a tradeoff for turning the Reagan Administration's proposed three-year tax reduction program into a one-year cut. These are just preliminary rounds, to be sure. The real toe-to-toe slugging is yet to come. But these signs that both political parties recognize that investors have been playing against house odds are encouraging. Keep your fingers crossed.

Personally, I'd like to get my hands on whoever it was who coined the phrase "unearned income" in the first place. Talk about loaded words. Rarely is there such a thing as unearned income. In all but a few dumb-luck cases, all income is earned—some by the sweat of a brow, some by the cool of a brain. Even those fortunate enough to inherit money do so by the grace of someone somewhere at some time who managed to save more than he spent (after income taxes), and who freely chose to pass on his "postponed spending" (after estate taxes) to his children, grandchildren or others.

Since I labor mightily day in and day out to try to help savers earn income on so-called unearned income, I consider myself an expert in the field. Money not currently spent is seldom an idle commodity. It is the money that goes into the formation of new businesses or the expansion or modernization of existing ones. It is the money that assists others to buy homes, cars, go to college, etc., via banks and other lending institutions. It is the money that helps pay for defense, Medicare, disaster relief and other large and complex national projects through funding of U.S. Treasury obligations. Moreover, it is money that is subject to being lost—not just the income but the principal as well—through both private and public mismanagement (inflation, for example, and the resultant loss of purchasing power). Income on money saved/invested is anything *but* unearned.

In spite of so many uncertainties—the outcome of the tax-cut and budget-cut packages, the enigmatic Federal Reserve policy and the-Russians-are-coming, the-Russians-are-going Polish problem—the stock market has turned in a highly creditable performance. Even the attack on Mr. Reagan's life seems to have had several noteworthy side effects on the psyche of the American people. First, it proved the 70-year-old President is physically strong and very possibly able to be a viable candidate for a second term (after all, Adenauer was still governing West Germany well into his late 80s). Second, the noise media notwithstanding, Messrs. Bush, Haig, Weinberger, Meese and Baker kept the government running remarkably smoothly after a to-be-expected bit of initial confusion. And third, Mr. Reagan exuded courage, calm and confidence throughout the ordeal—winning the respect, if not the admiration, of some of his more ardent detractors. There's a feeling in the spring air that maybe, just maybe, the country has finally put behind it the disheartening decades of Vietnam, Watergate and the Kennedy and King tragedies.

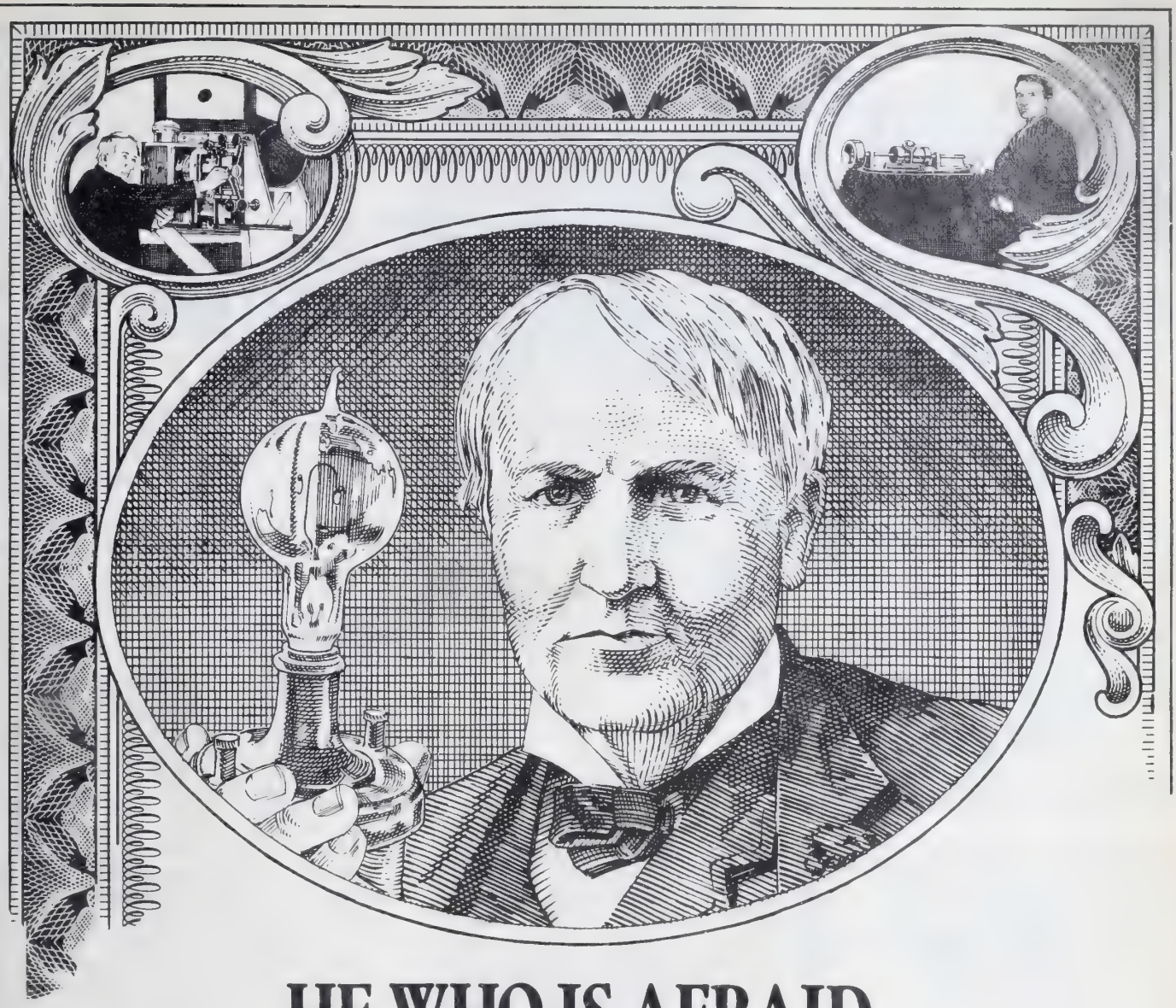
The stock market caught a whiff of this refreshing breeze and fluttered back and forth over the once-awesome 1000 level on the DJI. Of my last eight recommendations, six are at new highs as of this writing (Capital Cities Communications, Dow Jones, Dun & Bradstreet, Multimedia, A.C. Nielsen and Commerce Clearing House). Lagging a point or two is Time Inc., whose earnings estimate for 1982 has been lowered from $8.50 per share to $7.50 per share (*vs.* $5.75 in 1981) due to an anticipated increase in spending in its video area, the issuance of preferred stock and a less buoyant rebound in its paper and forest products operations.

Taking a beating are some of my favorite energy and energy-related stocks, which have been clobbered in anticipation of disappointing first-quarter earnings reports. *Engelhard Minerals & Chemicals* (43) is now expected to show 1981 earnings of around $6 to $6.50, instead of the previously anticipated $9 per share, due to a steep drop in its highly profitable commodities trading business. The recession in Europe has been deepening, there have been losses in sugar trading and the oil trading business is currently dead in the water. Business is expected to turn up later in the year, and the long-term outlook is for a five-year growth rate of 25% or better. The company has recently announced a spinoff of its industrial operations to be named Engelhard Corp., which is viewed as a very positive move.

Hang on to your good domestic (or friendly) oil company stocks. Remember, OPEC is scheduled to meet again on May 25, and today's glut could turn into tomorrow's shortage as fast as you can shut off a pipeline valve. Saudi Arabia has been keeping its production at 10-plus million barrels a day and should come under very heavy pressure from a number of the other exporting countries for a 20% to 25% cutback. The Saudis have made their point to their tentmates and will probably slow the flow and raise their prices slightly to meet those of the greedies on the way down. My top picks in the oil group are *Amerada Hess* (31), *Union Oil of California* (35), *Texas Eastern Corp.* (51), *Woods Petroleum* (27) and the more speculative *Beard Oil* (23).

Also keep your oil service stocks. *Schlumberger* (97), *NL Industries* (64, pre-split), *Hughes Tool* (74) and *Parker Drilling* (29) in particular. Still looking good are *Baker International* (40), *Halliburton* (68), *Smith International* (52) and *Rowan Cos.* (17). A year from now this spate of selling could prove to be a tempest in an oil drum. ■

Ann C. Brown is executive vice president of the New York investment firm of Melbado, Flynn & Associates.



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THE YEAR OF THE TORTOISE

By David Dreman

"YES, the statistics favoring low price/earnings stocks are impressive," an interviewer on the radio commented recently, "but aren't such companies out of favor with good reason? You have to wait forever for a turnaround." A good question, and one that has been put to me numerous times. My reply is that you rarely do have to wait "forever." True, one should have the patience to wait, but markets are incurably manic-depressive, which makes the wins come a lot faster than you might think, thanks to rapid changes in investor perceptions.

Take the 42 stocks recommended in this column over the last 12 months. All were low P/Es and the majority were large capitalizations. They might seem ho-hum, particularly since the period was a tough one for outdistancing the S&P's 500. Yet, measured from the time of the recommendations, the group did approximately twice as well as the S&P's or the Dow. Naturally, not every stock was a winner, which is the reason for a cardinal rule of the low price/earnings strategy—have at least a dozen baskets for your low P/E eggs, not all of which will turn out golden. Broad diversification will keep you out of trouble and bring you results more in line with the superior returns demonstrated over the years.

A second rule I follow, as important today as through the year, is to stay fully invested. The market was cheap 12 months ago, and though it has moved up substantially, it is still cheap. Relative to most categories of investments, good-grade common stocks are very much on the bargain counter. If you had stayed fully invested a year ago, you would have done about 2½ to 3 times as well in stocks as in money market funds or long-term bonds—and this before taxes on interest. You would have done better than in collectibles and many times better than trading your worldly possessions in for bags of gold at $700 to $800 an ounce, as several leading gurus of the gloom-and-doom set recommended at the time.

But back to a brief update of some of the selections. The market has been anything but manic on the oils: The four internationals recommended in the Dec. 22 issue—Gulf, Shell Transport, Royal Dutch and Texaco—were the worst performing group, down almost 25% to the present level.

Does this mean they should be sold here? Definitely not. It is precisely during this sort of overreaction that good money is usually made. The reasons for recommending oil stocks are still there: Excellent earnings progress and the prospects of good increases in the years ahead; high and expanding dividends; and strong financial resources. Currently trading at multiples only one-third to one-half those of the general market, the oils are more of a bargain than ever.

Remember, one of the glories of low P/E stocks is that they are so far down that just coming up to average creates substantial profits in them; if they go on from merely average to selling at a premium, the profits can be sensational. This happened with the brokerage group, which I recommended on June 23, 1980. At the time, they were in the darkest corners of investors' doghouses, priced at multiples of 3 or 4 times earnings, with some trading at half of book value and yielding over 6%. Exchange volume was down at the time, meaning any pickup would result in higher earnings, which is exactly what happened.

David Dreman is managing director of Dreman, Gray & King, Investment Counsel, New York, and author of Contrarian Investment Strategy *and* Psychology and the Stock Market.

The three brokerage house stocks recommended ran away—A.G. Edwards, up 130%; Shearson Loeb Rhoades, 83%; and Bache—the object of the Pru's wooing—260%. Do you sell them here? No, not if you think, as I do, that this market has more life to it.

An occasional freebee that comes with the low P/E strategy is the takeover play. Savvy corporate treasurers on the hunt for value often find it precisely in this type of stock. Bache was one such example. Others were the resource stocks recommended in the Mar. 16 issue. Phelps Dodge, then trading at 5 times earnings and at a 34% discount from book, moved up 48% in weeks, as large oil companies and other asset-hungry buyers scrambled to purchase the base metal companies, often at prices as high as 100% above current market.

What should be taken off the low P/E buy list now? Other than Bache, which is being acquired in any case, not much. Although as a group the stocks have moved up substantially more than the averages, they are still cheap. Union Carbide, for example, which rose 56% since its June 23, 1980 recommendation, is priced at 6 times earnings and yields 5.5%. Earnings and dividends have been moving right along, keeping the P/E down.

Which stocks in the group look the best now? Aside from the oils, the major banks appear to have excellent upside potential here. Two large West Coast banks, *Security Pacific* (37, P/E 6, yielding 5.4%) and *Wells Fargo* (28, P/E 5, yielding 6.9%), would be my choices. Both should have good earnings comparisons for the year and dividend hikes as well.

Finally, for those of you who agree that we are in the opening rounds of a bull market, what about a dual fund? Such funds pay all dividends to the income shareholder and all capital gains to the capital shareholder. *Gemini Capital*, originally recommended in the Sept. 15, 1980 issue, at 29, still looks good at 34. Gemini handily outperformed the market in the last decade. Capital shareholders get a 1.3 play on assets invested and, as a kicker, the shares trade at an 18% discount to asset value, which increases the overall leverage.

I do not claim that the low P/E strategy is the only market strategy that works. I do say that it produces above-average results on a fairly consistent basis and, at times, can yield a good deal of excitement as well. Low P/E is *not* synonymous with dull. ■

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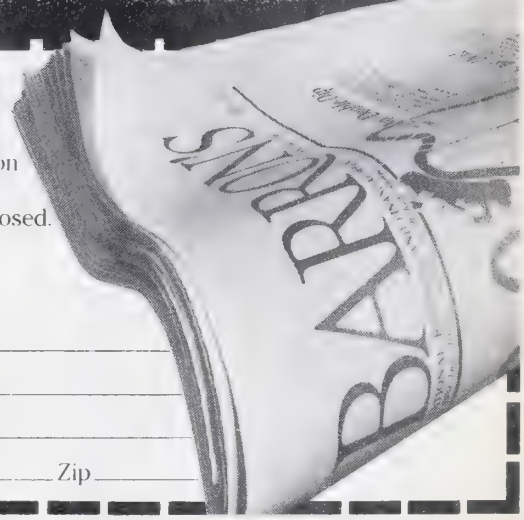

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Is buttering up the boss the best way to get ahead? Myth says, "yes." Facts say, "no."

LUNCH WITH THE BOSS

By Srully Blotnick

HOW MANY TIMES have you heard the cliché, "It's not what you know, it's who you know"? Well, it is false. Pursuing it is a waste of time and energy.

To see why, start by asking yourself how many people you know well who are in a position to boost your earnings significantly. If you are at all typical, you'll come up empty on this one. Some commonly encountered replies: "I once met Johnny Carson, but he probably wouldn't remember me," and, "I have a relative who told me he has a friend who's a pal of David Rockefeller."

Are you doomed to obscurity, then, because you don't socialize with the executive jet set? The overwhelming majority of people think you are. The most frequently heard comment: "Once they got to know me, I'm sure I'd move ahead faster."

Suppose you could, after much time and energy, mingle with the mighty. Would that bring you power and wealth? Would it be worth the effort?

Long ago, I decided to examine celebrity-collecting as a business. The expenditure of time and money was recorded as carefully as possible for a wide variety of people so that, for the first time, return on investment calculations could be made. It is a straightforward approach—Graham and Dodd applied to socializing.

In a sample consisting of 1,500 people, a cross section of middle-class America in 1960, most had given the matter a great deal of thought. In fact, they had a plan. They may not have been able to hobnob right away with someone wealthy and well known, but they had an alternative in mind. "Maybe I'll run into Frank Sinatra one day, get to know him, and he'll set me up in business," one said. "And *until* then?" we asked. "I have a better idea for now," he replied. "I'm going to have lunch with the boss."

Lunch with the boss. It was mentioned surprisingly often as an important objective by people who worked in offices with over 60—and especially 200 or more—employees in the same location. (In businesses with few workers, for example, suburban real estate offices and auto dealerships, it usually happened as a matter of course.) More than half of those who worked in large offices—367 of 712—considered it "a key goal."

Determined people that they were, a goodly number accomplished what they set out to do. Almost one-third—119 of the 367—wound up having lunch with the boss in their first three years on the job.

Did it help? To a last man and woman, they'd sworn it would. To see if it did, we compared the earnings records of the 119 lucky lunchers with another 119 chosen at random from those who did *not* think lunch with the boss was "a key goal."

When the results were in, it was obvious something had gone wrong. Those who'd tried hard to befriend the boss earned less than the others after 10 years, and significantly less at the 15- and 20-year check points.

Without referring in any way to the people in the sample, I had interviewed most of the supervisors involved. What emerged was that attempting to socialize with the boss may do more harm than good. Why? Because there is a strong tendency among people in responsible positions to be on guard against brown-nosing.

Executives in the $50,000-plus range displayed a startling degree of suspicion of their own motives when it came to hiring and, more importantly, promoting someone they personally knew well. "Sometimes we have a beer together after work," said a $68,000-a-year production manager, speaking for the rest, "and that makes me look *twice* as hard at his output. He's got to be better than the others if I'm going to move him up. He's my friend."

That comment, representative of what I heard over and over again, would have appalled and infuriated the people being referred to. "It's going to make it *easier* for me to get to the top if I'm buddies with the boss," they insisted, "and I'm going to get there quicker, too."

Is socializing with the boss a complete waste of time? No, not if your boss earns $39,000 or less per annum. Supervisors in this income range actually *encouraged* their subordinates to court them. "I like it when people butter me up," one $35,000-a-year department manager said. "I see it as a sign of respect." (In a continuing study of executives earning $100,000 and up, not a single one agreed with that remark. Most winced at the very thought. As one, who earns over $250,000, told me, "Good God, man. You've got to be kidding.")

There is one case in which lunch with a boss earning over $50,000 is useful: when it is a working lunch. Most high-level executives took pains to point out that they didn't consider the midday hours a break time. One, whose remuneration package exceeds $600,000 per year, said: "I have to insist at times that junior people join me at lunch so that we can accomplish things I couldn't find time for in my morning or afternoon schedule. The conversation may be more relaxed than it would be in the office, but make no mistake, we're still working. They're not climbing."

Recently, a very ambitious 33-year-old asked me if he should try to have lunch with his boss. "Sure," I replied, "if the person earns less than $50,000." I'd barely finished my sentence when he snapped: "Why would I want to have lunch with anyone who earns less than 50 gees? Anyway, I think he earns more than that." I suggested, then, that they make it a working lunch. "No," he replied, "I want him to talk about his family. And I want him to get to know me personally, not just as a worker."

As I said, he's a very aggressive young man, and he'll probably be able to wangle it. But even if he gets his boss to pick up the tab for the meal, guess who's going to wind up paying for it in the long run? ■

Dr. Srully Blotnick is a practicing psychologist and author of Getting Rich Your Own Way *and* Winning: The Psychology of Successful Investing.

OUR PRODUCT LINE MAY NOT BE THAT EXCITING...

Masco products, like faucets, ventilators, humidifiers, gearshift levers and oil drilling equipment, may not exactly qualify as glamorous.

On the other hand, a company that has more than tripled its earnings every five years and whose after-tax margins are better than 10 percent (twice that of the average manufacturing company) could hardly be considered an ugly duckling. In fact we're almost unique. Of all companies listed on the New York Stock Exchange, having 22 consecutive years of increased sales, net income and earnings per share, look who leads the pack in average annual earnings per share growth for the period 1959 — 1980.

1. MASCO CORPORATION	29.7%
2. Xerox Corporation	28.4
3. Baxter Travenol Laboratories	19.1
4. Dr. Pepper Co.	18.7
5. Air Products & Chemicals, Inc.	18.3
6. Petrolane Inc.	17.2
7. Johnson & Johnson	15.8
8. Philip Morris Inc.	15.4
9. Bristol-Meyers Co.	15.2
10. Jostens, Inc.	13.6

Source: Standard & Poor's Corporation

We don't want to spoil our annual report for you with its strategies for future growth. Nor the forecast that calls for a doubling of sales over the next five years. The report illustrates that nothing succeeds like success, if you keep in mind what made you successful in the first place. For your copy, write to: John C. Nicholls, Jr., Treasurer; Masco Corporation; Department 113; 21001 Van Born Road; Taylor, Michigan 48180.

...BUT OUR BOTTOM LINE IS ANOTHER MATTER

MASCO CORPORATION

CORPORATE REPORT Updates

A SPECIAL FORBES ADVERTISING SERVICE FOR INVESTORS AND THE FINANCIAL COMMUNITY

N New York Stock Exchange **A** American Stock Exchange **O** Over-the-Counter **P** Pacific Stock Exchange

ALOHA AIRLINES, INC. (A, P)

(ALO) HONOLULU, HI. Aloha Airlines, Inc., (ASE, PSE) today reported net earnings of $4,889,000 or $2.29 per share. The announcement was made by Edward E. Swofford, president of the interisland air carrier. The 1980 results are a marked improvement over the $1,233,000 or $.58 (58 cents) per share recorded in 1979. The 1980 pretax earnings of $5,611,000 included a gain of $3,148,000 on the sale of flight equipment.

"1980 was a difficult year," Swofford said. "Aloha was faced with a deteriorating economy which resulted in decreased traffic, increased costs, and thus the need to increase fares.

"In spite of Aloha's 9.5 percent decline in traffic, we achieved an acceptable earnings level. This was accomplished by increasing our market share to an all time high, initiating of cost controls early in the year, and reducing our fleet to meet the erosion in interisland traffic," Swofford said.

Swofford also reported fourth quarter net earnings of $6,000, a substantial turnaround from the $1.5 million loss reported for the same period in 1979.

"The fourth quarter is typically the weakest for Aloha due to the decreased pleasure travel from Hawaii's major markets. In addition, the 1979 fourth quarter was adversely impacted by a discount fare war," Swofford said.

"Our success in 1980 was based on a total team effort by all the employees of Aloha Airlines," Swofford said.

Statements of Earnings (unaudited)

	(000's omitted except per share data)	
Three Months Ended December 31	1980	1979
Total Operating Revenues	$19,882	$16,456
Earnings (Loss) Before Taxes	(50)	(1,488)
Taxes (Benefit)	(56)	11
NET EARNINGS (Loss)	$ 6	$(1,499)
Earnings (loss) per share	$ .00	$ (.70)
Average Shares Outstanding	2,132	2,139

	(000's omitted except per share data)	
Twelve Months Ended December 31	1980	1979
Total Operating Revenues	$81,829	$69,719
Earnings (Loss) Before Taxes	5,611	224
Taxes (Benefit)	722	(1,009)
NET EARNINGS (Loss)	$4,889	$ 1,233
Earnings (Loss) per share	$ 2.29	$ .58
Average Shares Outstanding	2,137	2,140

(Contact: Alvin R. Koo, Vice President-Public Relations, Aloha Airlines, P.O. Box 30028, Honolulu, Hawaii 96820. Phone: (808) 836-4206.)

AMETEK, Inc. (N)

AMETEK RECEIVES PATENT ON PHOTOVOLTAIC SOLAR CELL

Paoli, PA (April 7, 1981) AMETEK, Inc. (NYSE) announced that the basic patent on its solar photovoltaic device was issued today. According to the industrial manufacturer, the importance of the patent lies in the simplicity of its process and very low cost of the material used to convert sunlight to electricity. The company expects a subsequent patent on the details of the process to be granted shortly.

AMETEK said that in addition to these U.S. patents, foreign patent protection is being sought. The development effort which produced the solar cell was led by Dr. Ferenc J. Schmidt, an electrochemist who is a vice president-technical director of AMETEK, and Dr. Gabor F. Fulop, a nuclear physicist who is director of the company's Applied Materials Laboratory.

The basic patent covers a solar photovoltaic device made up of very thin films of a common semiconductor, cadmium telluride, and other materials which can be applied to almost any surface. The thin film coatings are applied by electrodeposition, basically the same process as electroplating, by which chrome, silver and other metals are plated throughout industry. The basic photovoltaic compound used in AMETEK's cell is composed of cadmium and tellurium, both of which are common by-products of metal refining and readily available in the United States.

The company reported that it has produced solar cells in a laboratory batch process that have achieved efficiencies in excess of eight percent in converting the sun's energy to electricity, with the majority of test cells in the five to six percent range. The company expects improvements in efficiency as development continues, noting that efficiencies of up to 18 percent may be obtainable with this material, which has a theoretical efficiency of 26 percent.

Efficiency figures are based on standard tests which measure the percentage of the total light energy falling on a solar cell which the cell can convert into electrical energy. An array of AMETEK's cadmium telluride-based cells, because of the low cost of the materials employed simplicity of the low temperature production process and minimum energy required in it, should cost less than $12 per square foot, and produce electricity at less than $2.50 per peak watt of generated powers, based on the company's average five to six per cent efficiency today. By comparison, the common photovoltaic solar material available today is silicon which, despite efficiencies of ten to twelve percent, is quite expensive because of the very high cost of energy required in its production. An assembled solar array of silicon currently costs about $100 per square foot, and should produce electricity at a cost of about $10 per peak watt.

AMETEK stressed that its photovoltaic program is still in the laboratory development stage, and noted that the company has begun preparing a pilot plant facility for photovoltaic work, where equipment is now being installed to develop manufacturing processes for the cadmium telluride cell.

(Contact: Darrah E. Ribble, Jr., AMETEK, Inc., Station Square Two, Paoli, PA 19301. Phone: (215) 647-2121.)

AYEROK PETROLEUM LTD. V

VANCOUVER, B.C., Canada, April 9, 1981—

Drilling Up-Date—New Acquisitions

Ayerok Petroleum Ltd. management is pleased to announce the the acquisition (subject to regulatory approval) of 10% working interest and 7½% net revenue interest in an 8900-acre prospect, Crockett County, Texas. The prospect offers a program to drill up to 5 offsetting deep gas wells against presently producing wells. Estimated reserves are 125 billion cubic feet of deep well gas. Pay back on two producing wells is estimated to be 2.7 months.

Nail Ranch oil prospect—Mitchell County, Texas. Ayerok has a 50% working interest and 35% net revenue interest on 640 acres of this excellent oil prospect. The first of two test wells will be spud in on May 15, 1981 and the second, 45 days later. 80-acre spacing permits a further six development wells. Wells adjacent to the prospect and in the vicinity are currently producing 150-250 B.O.P.D. from all the formations to be penetrated.

Paint Rock prospect—Concho County, Texas. Estimated combined gas flow from two successful gas wells (Hutchinson 1 and Cole 1) is 1,000mcf/day. Both are expected to be individual, long term natural flowing producing gas wells. A tentative agreement has been reached with Sun Gas Co., to purchase the gas. Hook-up should b within 2-3 weeks and cash flow within sixty days. A independent study is being conducted to verify the numbe of additional wells to be drilled. (Present estimates indi cate 6 development and possibly 6 offset.) Annual estimat ed cash flow after payback to Ayerok on Hutchinson 1 an Cole 1 is approximately U.S. $350,000.00

Clear Creek—Yukon territory. Ayerok and Bry Petro leum Ltd. share equally 100% in 43 placer gold claims. CAN $100,000.00 stripping program has just been complet ed in preparation for bulk sampling and limited productio based on results obtained. Previous findings indicated a estimated gross CAN $17.50 per yard in gold values (CA $500 per oz. gold) with net CAN $10.00 per yard. Reserve are estimated at 30 years on 5000 yards per day and 12 production years.

(Contact: Norman Newsom, President, Ayerok Petroleu Ltd., 1004-789 W. Pender St., Vancouver, B.C. Canada V6 1J2 (604) 669-3332.)

DAON DEVELOPMENT CORPORATION

(DAON F) VANCOUVER, B.C. Despite record high interes rates that have plagued the real estate developmen industry in both the United States and Canada, Dao continued to enjoy record results during 1980 in terms earnings, cash flow and total assets. This was achieve while still improving its capital base and liquidity position over the previous year. (All figures are quoted in Canadia dollars.)

Total revenue increased by 31%, earnings per shar increased by 20%, cash flow by 15% and total assets b 37% from 1979. Shareholders' equity, on an historic co basis rose by 32% and now stands at $159 million.

Following its established procedure, the Company com missioned an independent valuation of all Daon's interest in real estate at fiscal year-end, October 31, 1980. Base on this appraisal and the quoted market value of liste securities, the total market value of Daon's holdings e ceeded book value by $469 million. On a common shar basis, the net market value of assets, after provision f estimated taxes, increased by 32% over 1979 from $7.46 $9.81 per share at October 31, 1980.

In direct response to the unusually high levels of long term mortgage rates, the Company has sold interests certain of its income properties under development. Th Company completed in fiscal 1980 the marketing of th Daon Centre Limited Partnership, representing 50% owne ship in the Company's new headquarters building Vancouver, B.C.; and early in fiscal 1981, the marketing Daon Shopping Centres, Alberta, representing a 52% own ership in three regional shopping centres.

Financial Highlights:

	(in thousands, except per share amount	
Twelve Months Ended October 31, 1980	1980	197
Assets	$1,674,218	$1,221,6
Revenue	887,961	531,2
Net Income	51,340	42,2
Net Income per share	$1.32	$1
Cash Flow	91,224	78,9
Cash Flow per share	$2.43	$2

Daon Development Corporation is an integrated re estate investment and development company operating Canada, and through Daon Corporation, a wholly-owne subsidiary, in the United States. Approximately two-thir of the Company's property assets are located in the U.S.

(Contact: Mac D. Campbell, Senior Vice-President ar Chief Financial Officer, Daon Development Corporatio 999 West Hastings Street, Vancouver, B.C. Phone: (60 688-2171.)

CORPORATE REPORT Updates

POINT CORPORATION **N**

NEW YORK, April 2, 1981 ..... At a video press rence held today in New York City, Datapoint Corpora- nnounced the additon of a powerful ISX™ Information hing Exchange and KSX™ Key Switching Exchange to mily of integrated electronic office products. With additions, Datapoint becomes the first electronic vendor to offer both a digital voice/data private h exchange (PBX) and coaxial-based local networking e in the integrated office environment.

ne ISX is a very powerful and complete business one facility that provides its user with an integrated s of efficiently communicating voice, data, text, fac-, graphics and other digitized information both within eyond the local information network," explained Dan sage, Vice President and Group Executive of Data- s Office Systems Group.

hen the ISX is coupled with Datapoint's Attached rce Computer™ (ARC™) local coaxial network, users se both coaxial cable and regular telephone wiring to mit voice and data not only throughout the entire local but to branch sites and offices located around the ."

e ISX is compatible with a variety of industry-stan- and Datapoint-offered telephone sets and video data nals, any combination of which can be used in the nation network. In its largest configuration, the sys- an support a combination of up to 20,000 telephones lata terminals.

e smaller switching exchange being offered by Data- is the KSX Key Switching Exchange, which can be gured to support offices that normally require the use m 8 to 128 telephones.

atapoint has established a proven track record in ing to market innovative electronic office systems and tectures," related Hosage. "The ISX and ARC provide ritical global and local communications pathways that for the further integration of advanced office sys- In the future, Datapoint will continue to broaden the of its product line and provide additional functions ting in the integrated environment."

ontact: T.J. Moldenhauer, Datapoint Corporation, 9725 oint Drive, Mail Station H33F, San Antonio, TX 78284. e: (512) 699-4428.)

RLAKE DEVELOPMENT CORP. **VSE**

VANCOUVER, B.C., Canada, March 25, 1981—Inter- Development Corp. is actively engaged in the explora- and development of oil and gas resources, in the d States and Canada.

erlake announced completion of a firm underwriting 500,000 shares plus 200,000-option, netting 0,000.

Gas Exploration

as—Pawnee County. Burdett Prospect:

erlake has a 9% WI in this prospect. Completed g resulted in 32 potential gas wells. 455 MMCF in proven reserves are attributable to the company's st, and its share of projected reserves is approximate- 00 MMCF.

tierlands—Pawnee County:

erlake has a 7½% WI in approximately 14,000 acres ent to Burdett Prospect—a site in which the company dy has a working interest. Reports from John Blain eering Ltd. indicate probable reserves of 900 MMCF utable to the company.

York—Chautaugua Prospect:

erlake owns a 2% WI in this prospect. Preliminary ation of total reserves of the first six wells drilled is MMCF, of which the company's net interest is 51 F. Twelve further wells will be drilled, commencing 1981.

tana—Roosevelt Cnty., Big Muddy Field Creek:

erlake has entered into an agreement with Anador urces Inc. for 10% WI in a test well. Currently drilled to feet. The well is 100 feet from a well with reserves of approximately 400,000 bbl. oil and is being drilled to 12,000 feet. An economic evaluation by John Blain Engineering Ltd. estimates recoverable reserves as high as 800,000 bbl. oil.

New Mexico—San Juan Basin:

Interlake has a 25% WI in a 320-acre parcel in the San Juan Basin in New Mexico. Drilling is expected to commence June, 1981.

Alberta—Huxley:

Interlake purchased an 11.25% net revenue interest in a well 4-27-34-24 W4M, and in an undrilled Section 34-34-24 W4M. Total proven and probable reserves, attributable to the company, are 905 MMCF. The well is expected to be on stream mid-1982.

Destiny—7-Well Program:

Interlake has a 10% WI in a 7-well program in Colorado, Oklahoma, and Texas. Four wells have been drilled and will be on stream within the next few weeks, by which time the economic evaluation will be completed.

(For information on further developments contact: Gary Bilodeau, Pres. or Jim Andrews, G.A.B. Management Ltd., 980-789 West Pender St., Vancouver, B.C., V6C 1H7, Phone: (604) 669-6118.)

UNITED ENERGY RESOURCES, INC. **N**

(UER) HOUSTON, TX. United Energy Resources, Inc., today announced 1981 capital expenditure programs totaling $463 million, compared with expenditures of $358 million during 1980.

"Capital expenditures for 1981 will augment the company's interstate and intrastate natural gas transmission systems and broaden the earnings base in its growing energy exploration, development and service operations," J. Hugh Roff, Jr., United's Chairman, President and Chief Executive Officer said.

United Energy is the Houston-based Transmission company of United Gas Pipe Line Company, United Texas Transmission Company, Cotton Petroleum Corporation, United Energy Services Company, Petrounited, Inc., and other energy-related companies.

United Gas Pipe Line Company's 1981 capital budget includes $230 million for Interstate Gas Transmission System projects, up from $105 million in 1980. These capital expenditures in 1981 will include $77 million for additional investment in joint venture gas supply projects and $153 million for new onshore and offshore gas supply facilities, maintenance and system reinforcement.

United Texas Transmission Company's 1981 budget provides $48 million in capital expenditures for Intrastate Gas Transmission projects. This compares with $106 million spent by United Texas in 1980, when construction was completed on the company's 286-mile 30-inch pipeline from Laredo to Katy, Texas. United Texas' 1981 expenditures include $23 million for construction of additional pipeline capacity, $11 million for new gas supply facilities, and $14 million for system maintenance and reinforcement.

Cotton Petroleum Corporation, United's Oil and Gas subsidiary, plans 1981 capital expenditures of $160 million for exploration, production and acreage acquisition. This compares with $131 million in 1980 capital expenditures.

United Energy's 1981 capital budget also includes expenditures for United's well servicing and contract drilling operations (United Energy Services Company) and liquids terminaling and marketing (Petrounited, Inc.). United Energy Services' 1981 expenditures will be for maintenance and for purchase of a drilling rig and five new additions and modifications to its existing terminaling facilities at Bayport, Texas and Sunshine, Louisiana.

Completion of the capital expenditures program as budgeted for 1981 and participation in future capital projects and new investments will depend upon a number of factors, including the issuance of governmental approvals and the availability and cost of financing at the time.

(Contact: C. Ray Holland, Public Relations Director, United Energy Resources, Inc., P.O. Box 1478, Houston, TX 77001. Phone: (713) 237-5373.)

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A MATTER OF DELICATE TIMING

By Ashby Bladen

THE FINANCIAL turmoil of 1980 has precipitated a fundamental change in the thoughts and habits of many investors, both individual and institutional. Today most business and financial managers are basing their strategies upon the assumption that the inflation will continue to be severe and will cause periodic credit crunches, but that it will neither accelerate into hyperinflation nor degenerate into a general shrinking of credit. That suggests that interest rates will remain high on average, and will probably reach new peaks with each successive crunch.

So, many investors are maintaining an unprecedented degree of liquidity. Individuals are buying money market funds and certificates of deposit. Institutional investors are buying publicly traded bonds and are shortening maturities, in spite of the fact that long-term interest rates are already at new historic peaks in this country. Life insurance companies, for example, used to estimate their investment requirements for the year ahead and arrange forward commitments to cover them so that they would not accumulate unwanted cash balances. But this year the backlog of forward commitments is declining rapidly, and several companies are holding enormous amounts of short-term investments.

In my opinion such strategies are dangerous because permanent, limited inflation is the least likely outcome of all. It will eventually turn into runaway inflation. There no longer exist any significant limits to, or brakes upon, the inflationary overexpansion of debt like those that were provided in the 19th century by the linkage between financial instruments and precious metals. And in a system that lacks such limits or brakes, the only thing that ever did or could keep the rate of debt formation moderate and noninflationary was the prudent self-interest of borrowers and lenders alike in avoiding financial trouble. People used to realize that borrowing and lending are inherently risky activities that should be engaged in moderately, and mainly for the purpose of financing productive real investments like tools, factories, roads and bridges that provide their own means of repayment by increasing the productivity of human efforts.

The problem is that 20 years of well-intentioned but unwise political policies have inadvertently undermined that prudent self-interest. By promising to stabilize the economy to a greater degree than was really possible, by subsidizing credit for a great many borrowers, and by bailing out every overextended borrower whose failure would cause unemployment, the politicians have convinced everyone that the risks involved in being overindebted have been substantially reduced, while the risk of inflation has increased. So the people have concluded that the way to keep up with inflation is to borrow heavily and buy real things. In these circumstances the only thing that is likely to cause them to cut back on their inflationary borrowing and spending is a financial crisis that inflicts bankruptcy upon irresponsible borrowers and severe losses upon imprudent lenders.

A crisis is inevitable sooner or later because debts cannot forever rise faster than the incomes from which they are presumably to be repaid. The sooner the crisis develops, the less permanent damage inflation and financial excess will have inflicted upon our economy. Conversely, if we continued to follow the policies of the last 20 years, we would surely end up with hyperinflation, which would eventually collapse of its own weight when people are no longer willing to accept financial instruments in exchange for real things. The hyperinflation in Germany ended in 1923, when the farmers ceased to be willing to ship food to the cities in exchange for worthless money. Thus the real alternatives that confront us are a financial crisis in the near future, or hyperinflation and eventual disaster. (I say a crisis in the near future because it is clear that the Reagan Administration now has the best opportunity that has developed in 20 years to decisively break the inflation. If it tries and fails, another such opportunity is unlikely to develop until we are a good deal closer to disaster than we are now.)

It is important for investors and financial managers to realize that the present level of interest rates is compatible only with the current belief that inflation will remain severe, but will not culminate either in hyperinflation or in a crisis. If we do slip into hyperinflation, then interest rates will go through the roof. In Germany in 1923 the annual rate of interest on demand loans went above 10,000%. However, I believe it is far more likely that this Administration will succeed in ending the inflation; and in that case high-grade, long-term bonds bought at current prices will turn out to have been tremendous bargains.

If I am right, then we face a delicate problem of timing. I continue to recommend liquidity in anticipation of a crisis. If the crisis does develop and appears to be restoring financial prudence, then I would shift rapidly to the longest-term, most call-protected high-grade bonds that I could find. In the meantime, the liquid investments that I recommend to individual investors are federally insured bank deposits for small sums, and U.S. Treasury bills for large sums.

Institutional investors have more complicated problems. Large institutions cannot change course on a moment's notice, and so they have to worry about the risk that when it becomes obvious that the rate of debt formation is slackening, the high-grade bond market will be up 10 points the next day. And since they have liquid liabilities, they are likely to be badly squeezed during the crisis. I believe that they should continue to hold some highly liquid assets, but I am very skeptical about a general policy of shortening maturities at this late date. ■

Ashby Bladen is senior vice president-investments for the Guardian Life Insurance Co. of America, and author of How to Cope with the Developing Financial Crisis.

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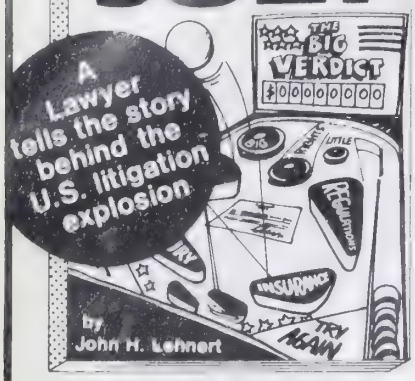

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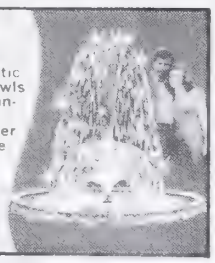

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Engelhard is that pleasant opportunity for the patient investor, an outstanding company wrongly perceived by the market.

A DOUBLE-PLAY STOCK

By John Train

THERE'S no better way to make money in stocks than by finding a double play. By that I mean an investment situation that is downgraded by the market on bad news. When investors realize that the news isn't that bad, they bid the stock up to a higher multiple of higher earnings.

You don't often get as attractive a double play as Engelhard Minerals & Chemicals. I first recommended this stock when it was in the 30s in mid-1980 and on Oct. 23, when it was up in the 50s, I wrote: "Buy a share in Engelhard next time it drops."

Well, it has dropped, into the low 40s. If you don't own the stock, here's a chance to buy it. Engelhard looks like a real double play, that pleasant opportunity for the patient investor. Engelhard experiences market ups and downs that have little to do with the long-range course of its basic business. Victims of modern portfolio theory may be scared off by this volatility—"beta"—instead of taking advantage of it. But if you know your facts, these market fluctuations can play into your hands.

Engelhard, quite irrationally, gyrates with the price of gold. The thinking seems to go like this: "Engelhard? Ah yes, bullion . . . Goldfinger! South Africa . . . apartheid . . . SWAPO . . . oh, oh!"

In reality, the prosperity of Engelhard has little to do with bullion prices and less with South Africa, although Harry L. Oppenheimer (who incidentally is one of the most liberal employers in that country and an outspoken opponent of the odious features of the present regime) holds an indirect interest in the company.

What the public sometimes forgets about Engelhard is that nine-tenths of its profits ordinarily derive from the Philipp Brothers division, which is the world's largest and most skillful trader of ores and commodities, including oil. It doesn't take positions in the materials it trades: Everything is back-to-back.

Its traders, who receive a princely compensation, handle 150 commodities out of 50 offices, using a unique worldwide information system.

As a concept, you could call Engelhard a play on world prosperity but also on world confusion. The old concessionary oil and natural resources companies have a colonialist and exploitative ring to the Arab or African countries, so quite often the new governments like to turn to a neutral-sounding name to handle their commodities dealings. Philipp Brothers sounds modest and low-key.

Also, whenever there is chaos in the world, involving a breakdown of commercial relations between, say, Red China and South Korea, trade is interrupted. After a while, though, the coal (in this case) resumes its flow, but indirectly: It has to be siphoned through cutouts. During the original Arab oil embargo, for example, Holland was not supposed to get oil. In fact, however, it did, through a series of exotic transfers. Arranging these swaps is a delicate job, one that Philipp Brothers executes to perfection.

Another familiar problem in the world is simply that many developing companies are running out of cash, thanks to their oil bills. They have to eat, though, so Philbro (as it's called) arranges complicated multimarket barter transactions for them—bilateral, triangular or even quadrilateral.

Statistically, Engelhard is one of the cheaper stocks around. Its compound growth rate is a good 25%, yet the price/earnings ratio is still only about

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters *and* Dance of the Money Bees.

6 times recent earnings. Return on equity is around 30%. It's unreasonable to expect a better bargain than that for a high-growth enterprise with a unique business franchise.

Just recently, the stock has been knocked down by lower bullion prices (in the irrational manner I describe earlier) as well as by a poor quarterly report. However, the comparisons were distorted by the surge in oil profits from the Iraq-Iran war, versus a soft world trade picture now. The long-term growth of the company is intact.

The stock was also adversely affected in the market by a prominent brokerage house changing its earnings estimate from much too high to rather low. Engelhard's results in the trading activity are a leveraged function of world trade. That shouldn't have been news, but it was. This year the company should earn less than last, but be back up to last year's rate—about $8—by the fourth quarter. If world trade recovers in 1982, up to $10 would be conceivable. And some day the $4-per-share Beaufort Sea exposure the company acquired from the Hunts should become useful.

That's the earnings part of Engelhard's double play. The other factor that has confused the market is Engelhard's decision to split up its businesses into two separate companies. The gold-related and industrial activity will be called Engelhard and spun off to the present shareholders, who will receive four-tenths of a share each of the new stock. The present corporation—which will conduct the trading business and hold the Beaufort Sea assets—will be renamed Philipp Brothers. The gold and industrial business will give today's shareholder a value of about one-fourth of the present stock price from that source, leaving three-fourths attributable to the trading business. At that point, however, whoever wants to buy into the trading business will have a clean investment that he can understand, so it should also sell in the market at a better price. Frankly, I'd rather own the Philbro part of Engelhard than Merrill Lynch: It has a more dominant position in a more specialized business. A hot broker, or indeed an entire branch, can break away from a stock exchange firm, set up on its own, and do well. But how does an Engelhard breakaway group put together the dozens of foreign offices and, indeed, the billions of dollars of financing to get a solid position in that intricate business? ■

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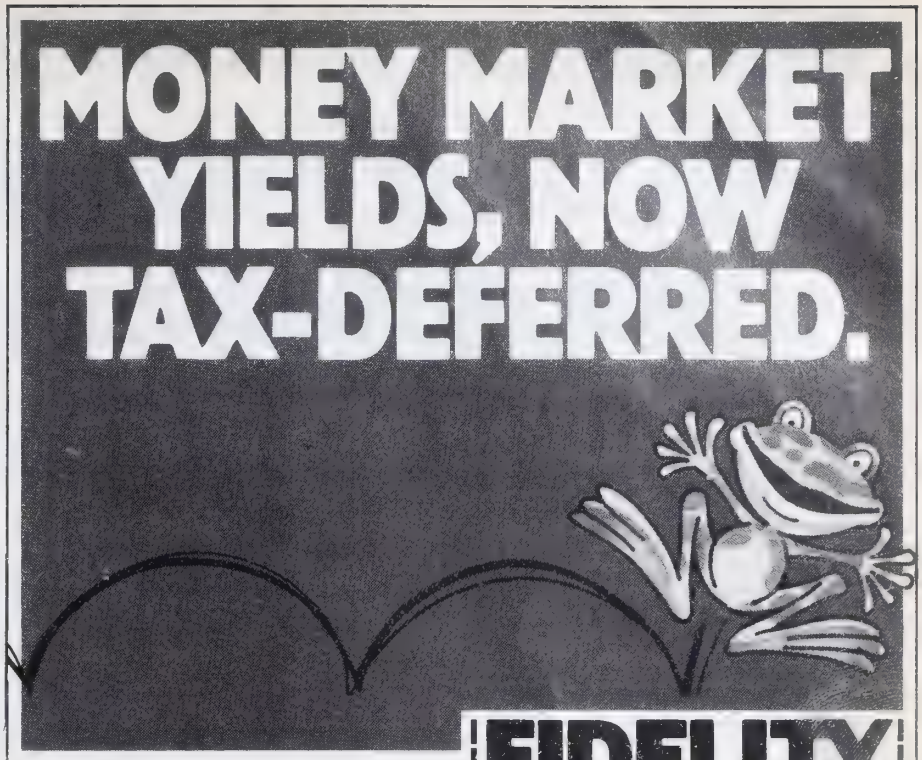

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Corn prices this year depend on two unrelated and uncontrollable factors—the weather and the Soviets.

THE DILEMMA IN CORN

By Stanley W. Angrist

THE OUTLOOK for the U.S. corn crop now being planted is uncertain. The big question is: Will the U.S.' great corn-producing areas receive adequate moisture during the growing season? March was not encouraging.

The outlook for corn this year is greatly colored by what happened to last year's corn crop, which was devastated by a great drought that blanketed much of the Midwest. The 1980 average corn yield dropped to 91 bushels per acre—18.7 bushels less than the record 1979 yield, and four bushels below the preceding five-year average.

Poland could also greatly influence corn prices in the coming months. The future of the U.S. grain embargo and chances of renewing the five-year grain pact between the U.S. and the U.S.S.R. depend more on what the Soviets do in Poland than whether they withdraw from Afghanistan. But there is no doubt that the Soviets want the embargo lifted and the grain pact renewed—probably at a higher level of sales than the 8-million-ton limit of the previous pact.

U.S. farmers are unhappy about the embargo and the possibility that Washington will allow the grain pact to expire. They see a valued U.S. customer slipping away to Argentina. The U.S.S.R. will buy about 9 million tons of Argentine agricultural commodities in 1981, double the annual quantity specified as the minimum in the U.S.S.R./Argentina agreement, which runs through 1984. In 1980 the Soviets bought 7.6 million tons of grains and oil seeds from Argentina, *vs.* 1.8 million tons in 1979.

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

IN MY LAST COLUMN I misstated the sources of John Train's conclusions on commodities trading. I also misstated his general opinion, which is, that while a very few large speculators make money, the vast majority lose it. Mr. Train has carried out many in-depth studies of both the markets themselves and speculators of various types. His perceptions of the commodities markets, while quite different from mine, are, like mine, derived from investigation and experience. Basically, I was defending commodities trading, not arguing with either Train's views or his methods of analysis.

If, as estimated, 10.5 million acres are not harvested as grain in 1981 (*vs.* 11 million in 1980), 73.5 million acres would remain to produce corn.

Now comes the tricky part. What does one assume as a yield for this acreage? The answer to that question is knowable only if one knows the weather. Does one assume that last year's drought was a rare event and so, assume a yield near 1979's—a record 109.7 bushels per acre? Or does one conclude that we are entering a long-term drought period and use last year's 91 bushels per acre?

Probably the most reasonable approach to an answer is to use the most recent five-year average of 96 bushels per acre. This yields a crop of only 7,056 million bushels. A more generous estimate of 102.9 bushels per acre would lead to a crop of 7,564 million bushels. The U.S. Department of Agriculture's latest corn-use projection for 1980-81 is 7,650 million bushels.

The table shows the tight situation that will exist in the corn market during the coming year. In Bache's estimate, which presumes good weather, a yield of 102.9 bushels per acre has been assumed for the 1981 crop. Even a slight drop in yield from this level would have a disastrous impact on the ending stocks level.

A balance sheet for corn

The outlook for corn is one of continued strong usage and tight supplies. Even a hint of drought would make corn fly.

	1977/78	1978/79	1979/80	1980/81*	1981/82*
Supply					
Carry in, Oct. 1	886	1,111	1,304	1,617	716
Production†	6,506	7,269	7,940	6,649	7,564
Total supply	7,392	8,380	9,244	8,266	8,280
Demand					
Seed, food, etc.	550	575	650	750	800
Feed	3,783	4,368	4,544	4,200	4,150
Exports	1,948	2,133	2,433	2,600	2,700
Total usage	6,281	7,076	7,627	7,550	7,650
Carry out, Sept. 30	1,111	1,304	1,617	716	630
As a percentage of production	17%	18%	20%	11%	8%

*All figures are in millions of bushels. *Estimates are by Bache Halsey Stuart Shields. †Includes imports.*

All bets are off, however, if the Soviets move into Poland. The embargo would remain, the grain pact would not be renewed for a while, and even Argentina would be pressured by the U.S. to curtail its Soviet sales. And grain prices would go into the tank.

But what about the crop prospects themselves? The fundamentally bullish Mar. 1 planting intentions report indicated that 84 million acres would be planted to corn. As usual, some part of the total will be cut green and go to silage—"not harvested as grain."

The most conservative way to trade on these facts is by way of a long July/short September corn spread with September at least at an 8-cent per-bushel premium. In the event of unfavorable weather, July could move to at least a 12-cent premium to September, providing a gross profit of $1,000 per spread. I would risk no more than 4 cents ($200) from my entry point on a close-only basis. The margin on such a spread would be about $100; the round-turn commission is about $70 per spread. ■

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Since 1978 FORBES has run lists of companies expected to have the best earnings gains. Our April 1980 list outperformed all of the market averages by a wide margin.

Will history repeat itself?

By Steve Kichen

IMPERFECT THOUGH THEY may be, earnings estimates have tremendous influence on Wall Street. The research professionals who earn six-figure salaries, and the figures they crank out can alert investors to potentially undervalued or overvalued situations. Beyond that, plenty of fortunes have also been made by taking a contrarian position and betting against the experts.

Statistical Spotligh

If a single earnings prediction is u however, shouldn't a consensus mate—reflecting the combined thi of several analysts—be even better? all, it was teamwork that built the shuttle. And the Edsel.

So, regardless of how you want t it, here is FORBES' fourth annual ra of companies that the pros predic post the greatest earnings gains ov coming year. We get our material Lynch, Jones & Ryan's Institu Brokers Estimate System (IBES), v gathers over 14,000 estimates from dreds of analysts and reports cons estimates on over 2,200 companies

Of the 100 companies on last list, 18 finished the period within the IBES estimates. A total of 30 co nies came within 10%, and slightly half came within 25%. On the hand, 20% of the estimates were more than half. Previous lists shown similar results. The progno

The golden ones

Ninety companies that institutional analysts predict will enjoy an earnings gain of better than 45% this year.

	Company[1]	Recent stock price	1980 earnings per share[2]	Average of estimates for 1981 earnings[2]	Increase from 1980 to 1981	P/E based on 1981 estimates	Number of estimates	Variati in estimat
	Wickes Cos	16½	$0.50	$2.91	481.9%	5.7	4	38.8
	Kaiser Steel	44⅝	1.10	5.24	376.4	8.5	3	14.4
	Springs Mills	22⅛	1.20	3.89	224.0	5.7	4	6.7
	Inland Steel	33¾	1.38	4.27	209.4	7.9	12	14.4
(a)	Applied Data Research	20¾	0.64	1.80	181.2	11.5	3	14.7
	Arvin Industries	16⅝	0.84[4]	2.32[4]	177.0	7.2	4	10.2
	Ponderosa Systems	12⅞	0.60	1.65	175.0	7.8	5	11.1
	Triangle Pacific	20⅛	0.74	2.00	170.3	10.1	3	25.0
(a)	Texas Air	14¼	0.64	1.68	163.2	8.5	6	31.3
(o)	Coherent	26¾	0.65	1.71	163.1	15.6	5	4.8
	Easco	23¼	0.97[4]	2.43[4]	150.5	9.6	5	13.6
	Echlin Manufacturing	13⅞	0.55	1.33	141.3	10.5	13	12.2
	Amstar	25¼	3.32	7.82	135.6	3.2	5	6.5
(o)	Magnuson Computer Systems	27½	0.54	1.26	133.8	21.8	4	20.8
	Standard Motor Products	22⅞	1.11	2.57	131.7	8.9	7	10.0
	Allegheny Ludlum Industries	48½	4.11	8.98	118.5	5.4	4	22.1
	Lockheed	27¾	1.50[4]	3.27[4]	118.0	8.5	12	12.1
	Shaklee	28	1.92	4.17	117.0	6.7	3	3.5
	Brunswick	18	1.01	2.19	116.9	8.2	9	16.8
	National Steel	29⅛	1.65	3.53	114.4	8.2	12	19.4
	Equitable Life Mtg, Rlty Inv	12¼	0.55	1.17	113.6	10.4	4	18.9
	Peabody International	7⅜	1.66	3.54	113.1	2.1	4	8.7
	Cessna Aircraft	31⅞	1.50[4]	3.19[4]	112.4	10.0	8	6.5
	Tyler Corp	26⅛	1.41	2.91	106.6	9.0	8	5.9
	Farah Manufacturing	12⅜	0.62	1.27	104.3	9.8	3	36.5
	Textron	34¾	2.30	4.67	103.1	7.4	7	5.9
	SEDCO	39½	1.08	2.20	102.4	18.0	16	11.5
	Raymond International	23¾	1.21[4]	2.39[4]	97.5	9.9	5	10.9
(o)	Magma Power	50½	0.89	1.75	96.6	28.9	3	0
	Seagram Co	55⅛	3.67	7.17	95.3	7.7	5	8.8
(a)	Amdahl	38¾	0.80	1.55	94.0	25.0	15	17.7
	San Diego Gas & Electric	12	1.01	1.96	93.7	6.1	8	5.5
	PSA	34⅞	3.58	6.93	93.5	5.0	7	11.1
(a)	RG Barry	9	0.62	1.18	90.9	7.6	3	6.5
	First Chicago	16⅜	1.34	2.55	90.7	6.4	21	14.3

[1]All companies listed on the New York Stock Exchange except those labeled (a) American Stock Exchange, (o) over-the-counter market. [2]For fiscal years ending J through May of the following year. [3]Percentage range around the average in which about two-thirds of analysts' estimates fall. The lower the percentage, the greater agreement among the analysts. [4]Fully diluted earnings per share. E: Estimate

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Statistical Spotlight

tors aren't per' ct—but their predictions are often remarkably close.

Last year's list, however, was even more noteworthy for its price performance. Although previous IBES selections have generally outperformed the market, this one left just about everyone else in the dust. Had you put $1,000 in each of the 100 stocks in FORBES' Golden Ones III *(Apr. 28, 1980)*, your $100,000 investment would be worth nearly $180,000 today—excluding dividends. Only 4 stocks out of 100 declined in value. The biggest winners: Tand Computers, up 283%, and Compute sion, up 272%.

Here are 90 stocks that current I consensus figures indicate will sh earnings gains of more than 45% 1981. Will this list do as well as the l If only we could predict the future.

	Company[1]	Recent stock price	1980 earnings per share[2]	Average of estimates for 1981 earnings[2]	Increase from 1980 to 1981	P/E based on 1981 estimates	Number of estimates	Variatior in estimates
	General Tire & Rubber	25⅛	$1.65	$3.12	89.7%	8.0	9	27.0%
	Transway International	29¾	2.62	4.82	84.0	6.2	6	8.4
	AE Staley Manufacturing	24⅝	3.51	6.42	82.8	3.8	11	11.3
(o)	Tandem Computers	84¾	1.06	1.91	80.3	44.4	14	8.3
	Macmillan	17	0.75	1.34	78.3	12.7	4	13.1
(o)	Bohemia	27¾	2.62E	4.67	78.1	5.9	3	22.3
	Simmonds Precision Products	17	1.16	2.05	77.5	8.3	5	7.2
	E-Systems	45⅝	1.87	3.29	76.0	13.9	5	16.5
	M Lowenstein	19⅛	1.14	2.00	75.0	9.6	3	0
	Overhead Door	13¼	0.82	1.43	74.8	9.2	3	4.0
	Oscar Mayer	28½	1.38	2.41	74.5	11.8	6	14.5
	Penn Central	45¼	2.72	4.71	73.0	9.6	3	30.9
	Texas International Co	38	0.81	1.39	72.1	27.3	4	13.0
(o)	Limited Stores	12½	0.62	1.06	71.4	11.8	4	8.9
(o)	May Petroleum	33½	0.80	1.37	71.2	24.5	5	18.4
(a)	Petro-Lewis	21¼	1.09	1.87	70.5	11.4	3	12.4
(o)	Tom Brown	46⅛	0.61E	1.04	70.4	44.5	6	31.9
	Redman Industries	11½	0.71E	1.21	70.2	9.5	6	20.2
	Nevada Power	18⅞	1.58	2.68	69.8	7.0	6	4.2
(o)	Triad Systems	38	0.80	1.34	67.5	28.4	5	12.2
	McDonnell Douglas	42	3.15	5.27	67.3	8.0	14	6.2
	Rubbermaid	32½	1.84	3.06	66.4	10.6	9	5.6
	First Mississippi	23¾	0.98	1.63	65.9	14.5	7	4.1
	Hoover Universal	21¼	1.90	3.15	65.8	6.7	5	8.5
(o)	McCormick & Co	19¼	1.31	2.15	64.1	9.0	3	4.0
	Delta Air Lines	72¾	4.69	7.65	63.2	9.5	13	6.3
	Data Terminal Systems	13⅛	0.53E	0.86	62.7	15.3	5	25.5
	Parker Drilling	29⅛	1.52[4]	2.47[4]	61.8	11.8	17	4.7
	Wainoco Oil	27	0.71	1.15	61.5	23.6	4	16.7
	Tandycrafts	10⅝	0.59	0.95	61.0	11.2	6	5.8
(o)	CPT	50¾	1.36	2.19	60.9	23.2	8	7.9
	McDermott	35¾	2.25[4]E	3.57[4]	58.4	10.0	13	10.4
	James River	28½	2.68E	4.24	58.1	6.7	4	17.4
	GDV	14½	1.82	2.87	57.5	5.1	3	4.4
(a)	Flow General	33⅝	0.67[4]	1.05[4]	57.5	32.0	5	4.8
	Savannah Electric & Power	9⅝	1.22	1.90	55.7	5.1	3	5.3
	Harnischfeger	16⅛	0.53	0.82	55.7	19.5	4	14.4
	Zapata	27⅝	2.18	3.40	55.6	8.1	9	10.8
	Commodore International	34⅜	1.56	2.42	55.5	14.2	4	2.1
	Champion Spark Plug	10⅞	0.96	1.49	54.9	7.3	8	13.4
(o)	Simpson Industries	13	0.84	1.30	54.8	10.0	5	11.2
	Purolator	56¾	3.03	4.68	54.5	12.1	5	7.8
	Sealed Power	29¼	2.45	3.78	54.2	7.7	7	17.3
(o)	Applicon	36½	1.00E	1.53	53.4	23.9	8	11.5
	Western Co of North America	51¼	2.48	3.78	52.2	13.6	16	8.3
(a)	Crutcher Resources	26	1.42	2.16	52.1	12.0	5	7.6
	Modular Computer Systems	14	0.79[4]	1.19[4]	51.1	11.7	8	30.7
	Denny's	30	1.95	2.94	50.8	10.2	14	3.8
	Gearhart Industries	42¼	1.84	2.77	50.7	15.2	10	12.9
	BankAmerica Realty Investors	25¾	1.44	2.17	50.5	11.9	3	16.7
	Archer-Daniels-Midland	17⅜	2.03	3.05	50.2	5.7	15	5.2
	Consolidated Freightways	37¾	3.20[4]	4.80[4]	50.1	7.9	13	7.8
	McGraw Edison	45¼	3.12	4.66	49.3	9.7	11	7.3
(a)	Paradyne	43	0.74	1.10	49.1	39.0	8	6.7
	Monsanto	71⅞	7.04	10.50	49.1	6.8	21	9.7

[1]All companies listed on the New York Stock Exchange except those labeled (a) American Stock Exchange, (o) over-the-counter market. [2]For fiscal years ending Ju through May of the following year. [3]Percentage range around the average in which about two-thirds of analysts' estimates fall. The lower the percentage, the greater t agreement among the analysts. [4]Fully diluted earnings per share. E: Estimate. *Source: Institutional Brokers Estimate System; Lynch, Jones & Ry*

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The baby boomers are nearing 30. And on Wall Street some folks think that means great news for fiberglass manufacturers.

A house divided

By Newcomb Stillwell

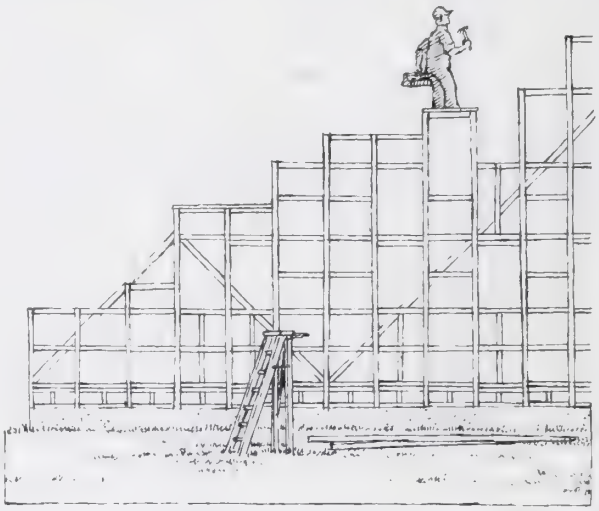
DEMOGRAPHY BEING DESTINY, the baby-boom generation regularly shakes America with its demands. Now that its members are reaching those untrustworthy years around 30, they want houses. And because there are so many baby boomers, the implications for construction are awesome. A gaggle of economists projects that annual housing starts will have to average over 2.5 million for the rest of the decade to meet the need. That compares with 1.3 million last year.

Before you call your broker, however, consider something else. Houses don't come as cheap as Davy Crockett hats, Hula Hoops, Earth Shoes and Frisbees, and long-suffering, gray-flanneled Dad isn't around anymore to pick up the tab. That means actual demand may be somewhat less than those numbers imply. Says analyst Timothy Jones of Dean Witter Reynolds, "It's like Cadillacs: There's a certain demand at $18,000 and a hell of a demand at $10,000."

Still, the impact of the baby boom on construction has sparked a controversy among investors. It centers on what may be the most leveraged beneficiaries of an upturn in housing: the fiberglass manufacturers. These companies, and in particular industry leaders Owens-Corning Fiberglas Corp. and CertainTeed Corp., have lots of excess capacity. Since some 65% of their output ends up in insulation, roofing and, to a lesser extent, bathtubs, a population-pushed housing turn could do wonders for their operating rates and anemic earnings.

Some of the numbers floating around Wall Street are staggering. Jonathan Goldfarb of Merrill Lynch, a leading bull, estimates that Owens-Corning will earn $5.50 a share next year and $8 to $8.50 in 1983. That compares with $1.78 last year, and Goldfarb's estimate of $2.70 for this year. "Assume the market multiple 18 months from now is 8," he says, "8 times 8 is 64, and even if the stock only goes halfway there. . . ." The man is excited: Recently Owens-Corning traded at only 28 and change.

Goldfarb, moreover, isn't even counting on housing to turn up as much as some economists predict. "I don't think housing starts can exceed 2 million for



an extended period," he says. "Nonetheless, I do think the cyclical peak can hit 2 million in 1983." Some of the other assumptions built into those estimates are slightly less conservative. He expects a modest recovery in the market for pleasure boats and figures domestic auto production will hit 9 million to 9.5 million units in 1983, up from 6.4 million last year. Both use considerable amounts of fiberglass-reinforced plastics. "And," says Goldfarb, "the number of fiberglass parts in cars is increasing to make them lighter, so there's a kind of double leverage there."

For similar reasons there's some "double leverage" in roofing, too, where fiberglass mat products are gaining market share on organic mat products. The rea-

The Streetwalker

son: They require 20% to 30% less a phalt, which has gotten expensive wi increases in the price of oil.

The big question mark, though, is r rofitting—adding extra inches of insu tion to an existing house to cut util bills. Goldfarb thinks there are still a of people out there who haven't do this yet, and what with natural gas pri rising, he expects 3.9 million homes be retrofitted in 1982 and 1983, up fro his 3.45 million 1980 estimate.

Another, if slightly less thunderi bull is Stephen Albert of Kidder, P body. He sees Owens-Corning earni $2.50 this year and $5 next. If you ha an eye for an even more leveraged pl he finds CertainTeed attractive—a speculative. Currently trading at i over $14 a share—half its 1977 high- has suffered several managem changes, and last year had a 31-cent d cit. Noting the 54% interest held France's Saint-Gobain-Pont-à-Mouss he says, "The stock is thinly traded, a the earnings numbers could come very big." On the order of $1.25 a sh this year, and $3.25 next.

Ah, yes, the controversy. Think Cadillacs, Dean Witter's Jones not convinced that the long-aw ed turn is at hand. "I find it in esting that people are talking ab 1982 and 1983, when they ca even tell what's going to hap next quarter," he says. "You throw those housing start numb out the window as long as you h mortgage rates at 15%, and available at that. And if anyone tell me what mortgage rates wil in 1983, I'd like to meet him." I also not so optimistic on retro ting: "There are a lot of more c effective ways to cut utility b storm windows, caulking, ther doors, furnace adjustments. A anyway, half the U.S. is soutl the Mason-Dixon line." Geo phy, too, is destiny.

Jones' projections match his ske cism. His housing-starts estimates close to Goldfarb's in the short term 1.4 million this year and 1.7 mil next, but taking retrofitting and the er markets into account, he sees Ow Corning earning only $2.35 in 1981 $4 in 1982. "Those numbers may stretching it," he says, "and I'm making 1983 estimates." Jones d however, have a grudging buy/hold ommendation on CertainTeed, whic figures will earn $1 this year and $2 r "Five presidents in five years, or w ever." Explosive laugh. "But the thin selling at a 30% discount to book."

Gloomier still is Laurence Hirschl of First Boston. He doesn't think de

ic pressures will turn up in housing until the second half of the decade. eason: interest rates. "Money mar- onditions just won't allow the de- to be realized," he says. "My esti- for Owens-Corning is $2.20 to this year. Frankly, that is awfully ed optimistic, and I haven't any what 1982 will be." Not a buy, by hance? "Isn't a $28 stock price on in earnings a little rich?" Such is esult when a man hangs around Al Wojnilower.

dfarb dismisses all this. "Every I say something positive, they all omething negative," he notes. "But what makes it a ball game." Gold- batting average is good: Ruthian its like calling the turn in U.S. and a couple of others a year ago that institutional clients don't his thinking lightly. On the other you have to be careful with those boomers: They might all decide to tents.

hinking man's retread

roblems," Henry J. Kaiser used to say, "are only opportunities in work clothes." Shrewd investors been profitably heeding that advice ars. Lately, though, it seems that problems have been proliferating , opportunities have been getting

The gospel according to Goodman

Good investment advice, like fine wine or great art, stands the test of time. In 1935 Joseph Goodman began writing a FORBES column, which appeared regularly until his death in 1958. Goodman, who ran a fair-size Philadelphia brokerage house, was always popular with readers—in large measure because of his terse, often accurate trading recommendations. Last month a subscriber mailed us a dog-eared list of Goodman aphorisms. Remarkable, he wrote, how relevant they are today. We think so too.

1) Never buy a stock that won't go up in a bull market. The smart money is out of it.

2) Never sell a stock that won't go down in a bear market. The smart money is into it.

3) Don't buy the sympathy stock. Don't buy a weak railroad because a strong one has started to move. Everybody does this, and it is rarely profitable. Buy the company that is going up.

4) When a bull market peaks, sell the stock that has gone up the most. It will fall back the fastest. Also, sell the stock that has gone up least. It didn't go up; therefore, it must go down.

5) When a bear market begins to bottom out, buy the stock that has gone down most. Also, buy the stock that has gone down least.

6) Never place a limit on your orders; make them at market. Many a profit became a loss by holding out for an eighth of a point.

7) Never sell a stock that has long been inactive just at the moment it begins to move ahead.

8) No man ever makes himself poor by taking a profit.

E. I. du Pont de Nemours and Company

has acquired

New England Nuclear Corporation

The undersigned acted as financial advisor to E. I. du Pont de Nemours and Company in this transaction.

The First Boston Corporation

April 14, 1981

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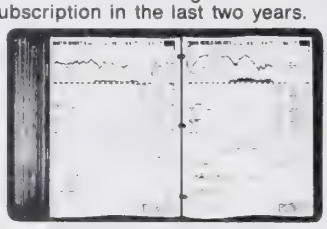

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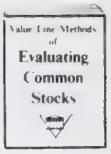

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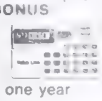

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more and more inscrutable. Take th industry's woes, astronomical oil p or the coal strike: problems, certa but opportunities?

Of course they are, at least acco to Louis Hannen of Wheat, First Se ties in Richmond. Today's problem thinks, have created a sweet opport for Spruce Pine, N.C.-based Brad R Inc., a $162 million (sales) purvey new and retreaded tires, and a forme times-earnings highflyer that is s thing of a retread itself. "The com could earn $2.50 a share within the couple of years," says Hannen. T about twice 1980 profits.

To appreciate this potential, you to understand Brad Ragan's rather a business. Roughly 60% of its reve come from contracts the company with mines or contractors. Ragan vides new or retreaded tires for e movers and other monster machir and its wares are hardly 28-inch-di ter tube-type whitewalls. They ca twice a man's height, and carry tags of as much as $40,000.

Ragan gets most of its new off road tires, which account for 22 revenues, through a distributorshi rangement with Goodyear. It make own retreads—many using its pr etary computer-controlled pro which chops away at 13 of Ragan tire centers. The company also ret over-the-road tires for truckers and chain of 36 retail stores in the Carol These sell auto tires and accessori well as home appliances like telev sets and refrigerators.

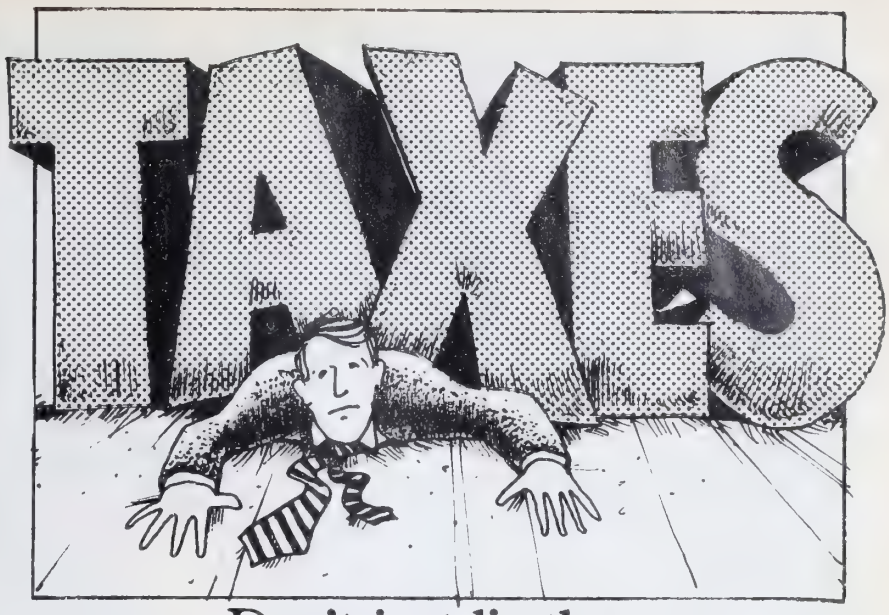
To appreciate its potent you have to understand B Ragan's rather arcane b ness. Its wares are har 28-inch diameter tube-t whitewalls. They can twice a man's height, c they carry price tags of much as $40,000.

But back to those dismal econ problems. Largely unnoticed amid recent welter of tire industry s downs was one that is very good r for Brad Ragan: On Mar. 16 Uni announced that it will stop making the-road heavy construction tires. royal represented some 5% to 10 the nation's off-the-road tire capa and the production halt will substar ly reduce all the burdensome overca ity left from the salad days of i state highway construction. Says nen, "As you get supply and den into a better balance, inevitably you

pricing and better margins."
xt consider how astronomical oil
have helped Brad Ragan. They
had a major impact on the price of
etic rubber, now running at more
natural rubber. Retreads, however,
much higher proportion of natural
r than new tires, partly because it
the retread stick better to the tire
s. That means prices of new tires
ing faster than the cost of retreads.
, wider margins.
the leverage is the key. Ragan's
margins have been running at
ome 3.3%, down from 7%-to-10%

deeper miners have to the more overburden must auled away. Which means of wear and tear on the cles' tires. "This com- ," says Hannen, "will be jor beneficiary of the de- on of America's natural urces."

the interstate program was in full
. Any improvement on that de-
d level has a big impact on earn-
Says Hannen, "If they get margins
only 6%, earnings would be $2.50 a
even if volume stayed flat." Long
of course, there's no reason to be-
t should stay flat: The deeper min-
ave to dig, the more overburden
be hauled away. Which means lots
ar and tear on the vehicles' tires.
company," says Hannen, "will be
or beneficiary of the depletion of
ca's natural resources." Talk about
of gloom.
s, of course, brings us to that third
m: the coal strike. Since some
f Brad Ragan's revenues depend on
al industry, the strike is definitely
ws for the company. It may not be
vestors: Ragan's shares started to
up on news of the Uniroyal an-
ement, only to be beaten back
by the strike. That could provide
ortunity to get in relatively cheap-
th a low 2-to-5 debt-to-equity ratio
strong current ratio of 3, Ragan's
es are well battened down for the
There is also a new management
n place.
annen is right, there will be plenty
d news when the coal miners go
to work. Recently, Brad Ragan's
traded near $9 a share, a hefty 50%
nt from book value, but earnings
$2.50 level could support a stock
lose to $20. The one big risk is the
The Ragan family owns some 45%
2.3 million shares outstanding,
doesn't leave too much for every-
se. Still, if you're careful, there's
g like scarcity to drive up a
—Newcomb Stillwell



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THE INTERNATIONAL NEWSMAGAZINE

A MAGAZINE, NOT AN EDITION

Flashbacks

Edited By Dero A. Saunders

"The more things change. . . ."
tems from past issues of FORBES

ty years ago in FORBES

readers know, FORBES has been vig-
sly advocating the exacting of less
ous discount rates from commercial
wers. This evoked protests from
in bankers, who were able to draw
tsome pictures of the horrors of pos-
'inflation' were such a course adopt-
ur stand has been that the desirabil-
doing anything and everything pos-
to bring about more active business
employment should weigh more
any danger of restarting infla-
. . . We are glad, therefore, to be
to record that rates charged the bet-
lass of commercial borrowers have
appreciably reduced, as have also
interest rates. At the beginning of
month prime short-term paper was
able at 7%, and in some instances
%. . . . "

many has gone back to work as has
ther nation in Europe [says steel-
er Charles M. Schwab]. Her working
e are economizing, sacrificing, and
ving themselves into real produc-
Believing as I do that the strength
prosperity of a nation depend upon
fficiency of its labor, I had some-
of a shock in contemplating this
ght: Is it possible that after having
the war, we of the allied nations,
everything in our hands, will allow
any to win the peace through the
s of her labor? Germany can today
ton of steel in England at a price
a ton cheaper than what it costs
nd to make it. Germany is today
selling pneumatic tools in Detroit where formerly we made such machinery and shipped it to Germany to sell there cheaper than she could make it."

ht service in 1930
cabin attendant—the copilot.

Fifty years ago

"Business began to require sobriety before prohibition was thought possible. Railroads and industries found sober employees necessary to safe and profitable operation. Besides, those employers who were anxious to improve the condition of their men by increasing their wages soon discovered that no business can afford to pay high wages to intemperate or drinking workmen. The Ford Motor Co. raised its minimum wage first, and then undertook to insure the sober use of it. If the impossible should occur—I mean the return of legalized liquor—its first effect would be a widespread reduction of wages due to the demoralization of labor which liquor always causes."

—Henry Ford

"Transcontinental & Western Airlines has recently announced the opening of a new all-air passenger and express service between New York and Chicago. The schedule will call for an eight-hour run and passenger fare is set at $56 one way."

"In practically every previous major business depression, wages have come down fairly rapidly along with living costs. President Hoover requested at the beginning of the present depression that corporations try to hold up their wage scales, and they have done it in a noble manner. Now it appears that this idealistic policy has not softened the business depression to any appreciable extent and has perhaps made business even worse, because corporation profits have been reduced by the high wage payments in the face of constant public decline in buying."

To those who lived through it, one of the more dismaying aspects of the Great Depression must have been the way it seemed to defy the conventional wisdom on how depressions should be managed. In the short, sharp depression of 1920-21—still vivid in the memory of most adults in the early 1930s—all that seemed necessary to correct the previous inflationary excesses was to slash prices and costs, especially wages, for a few months in order to get demand rolling again. So observers like Editor B.C. Forbes were obviously skeptical about President Hoover's plea that wage levels be maintained—and especially so when any wage cuts could be justified on the ground that prices had fallen enough to prevent any real drop in the standard of living.

Alas for both viewpoints, the roots of the Great Depression were deep enough so that neither course seemed to do much good. Despite presidential appeals, persistent wage cuts went on anyway, with each cut being a constant and anxiety-producing reminder that the next cut might be the job itself.

Twenty-five years ago

"Automakers last year used an average of 35 pounds of aluminum in each car that rolled off Detroit's assembly lines (*vs.* 10 pounds in 1946). Predicts Chevrolet's chief engineer, E.N. Cole: 100 pounds of aluminum in each car by 1970, 200 pounds by 1980. Engine blocks alone, which General Motors and Ford are now beginning to make out of aluminum, could, as Henry Kaiser is always fond of pointing out, absorb the aluminum industry's entire present output."

How did engineer Cole's prediction work out? Pretty well, as 25-year predictions go, though General Motors—by itself over half the auto industry—has not yet reached that 200-pound usage figure: The average GM 1981 model has 146 pounds of aluminum. But it also has (for the same reason aluminum is used) some 200 pounds of weight-saving plastics.

Engineer Cole also did pretty well by himself in later years. The ink was hardly dry on the FORBES article above when he became general manager of Chevrolet in July 1956. From there he went on to become, in 1961, GM group vice president in charge of cars and trucks; executive vice president in 1965; and president in 1967. After his 1974 retirement from GM, he poured some of his undiminished energy into International Husky, a company dedicated to building a vast new air cargo network using huge new freight planes. And shortly before his untimely death in an air crash in May 1977 he had bought control of Checker Taxi Co., which he planned to turn around with a new diesel taxi design based on the Volkswagen Rabbit.

"Since 1947 the number of scientists and engineers employed has gone from 575,000 to 900,000, the Chase Manhattan Bank points out. . . . Engineers now start at $400 a month in contrast to less than $250 nine years ago. It is estimated that there is a current need for 45,000 engineers a year. We graduate only 23,000. Four hundred men trained as nuclear scientists graduate each year. Twelve hundred are needed.

"The most challenging aspect of the problem lies in the fact that today only 16% of university students major in science or engineering, down 25% since 1950, while in Russia over one-third of all students major in science."

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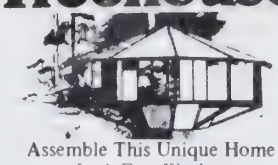

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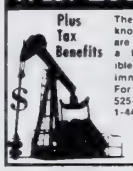

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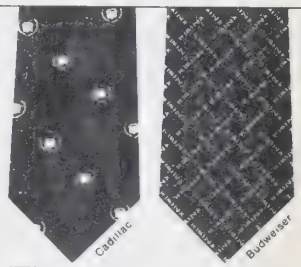

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OSCAR WILDE

Children are always cruel.
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The most precious thing a parent can give a child is a lifetime of happy memories.
FRANK TYGER

For millions of men and women the family is the one and only setting in which human relationships are not governed predominantly by considerations of bargaining.
ERIC L. MASCALL

It is astonishing how well men wear when they think of no one but themselves.
EDWARD BULWER-LYTTON

The most melancholy of human reflections, perhaps, is that on the whole it is a question whether the benevolence of mankind does most good or harm.
WALTER BAGEHOT

He cannot be good that knows not why he is good.
THOMAS FULLER

Let no man delude himself by the belief that the good things of life will endure through the sheer quality of their goodness.
RALPH BARTON PERRY

No man knows how bad he is until he has tried very hard to be good.
C.S. LEWIS

Thoughts on the Business of Life

To relish work thoroughly there must be more than a purely selfish motive. There must be an inspiration based on unselfishness—a desire to succeed for the pleasure or benefit it will mean for someone else. Or the impelling and propelling inward force may be a longing to achieve something for the common good. Work is what we make it, a pain or a pleasure. And as most of our waking hours are spent at work, it is the part of wisdom to get on friendly terms with it.
B.C. FORBES

A sense of duty is useful in work but offensive in personal relations.
BERTRAND RUSSELL

If a task is uncongenial, almost any excuse will be found to neglect it—or at least postpone it.
WILLIAM FEATHER

Be satisfied with your business, and learn to love what you were bred to do.
MARCUS AURELIUS

My father taught me to work, but not to love it. I never did like to work, and I don't deny it. I'd rather read, tell stories, crack jokes, talk, laugh—anything but work.
ABRAHAM LINCOLN

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God intends no man to live in this world without working; but it seems to me no less evident that He intends every man to be happy in his work.
JOHN RUSKIN

That action is best, which procures the greatest happiness for the greatest number.
FRANCIS HUTCHESON

Benevolent feeling ennobles the most trifling actions.
WILLIAM MAKEPEACE THACKERAY

Nobody ever did anything very foolish except from some strong principle.
WILLIAM LAMB

We ought to prefer a greater good, though more distant, to a less; and a less evil to a greater.
THOMAS REID

A Text . . .

The desire accomplished is sweet to the soul.
PROVERBS 13:19

Sent in by Betty Fonner, Marietta, Ohio. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

There are many areas of human activities where work is not really productive, where work is not really creative. But almost everywhere, work nevertheless has the power to bring men together, to create cherished fellowship.
HANS MARGOLIUS

Work is a grand cure of all the maladies that ever beset mankind.
THOMAS CARLYLE

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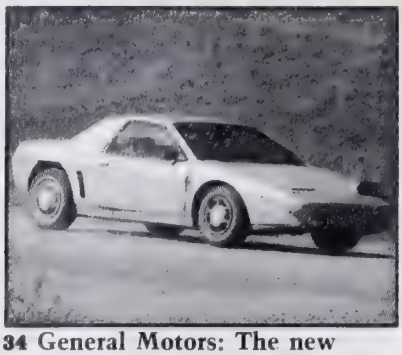

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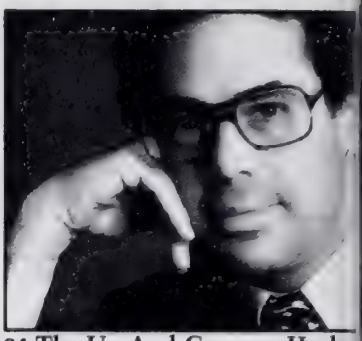

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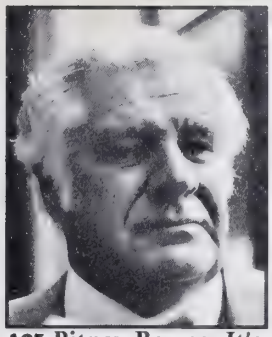
114 Akzona, Inc.: Been down so long it looks like up from here.



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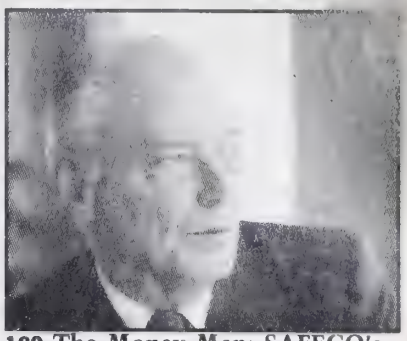

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Side Lines

Cut, cut, cut

W. Somerset Maugham

We love it when, sometimes with a bit of prompting, people ask us: Why is Forbes so much more readable than *Business Week* and *Fortune*? We have a stock reply. We borrowed it from the late W. Somerset Maugham, who, when asked his recipe for fast-moving prose, said: "Stick to the point and whenever you can, cut." (That's not bad advice in writing business letters. Most of the ones we see bury the intended message in verbosity and im sion.) In following M am's advice to be far about brevity and writing we lose a grea of fascinating materi the cutting room floo we do manage to jam of information into a ed space. This issue, f ample, has 23 article profiles, 7 columnists our standard features. Almost all is stuff you cannot get in any publication.

Alfred Sloan and the J car

Speaking of miasmic verbiage, isn't that what we've all been exposed to with the introduction of General Motors' new J cars? Their shape, their quality, their problems, their price. But what's the strategy behind it all? Isn't that what businessmen and investors really need to know? And so, that's the J car story Forbes' Jerry Flint tells in this issue. Not what do the cars look like, but: Does management have a coherent pro After spending 15 years as a newsn the motor capital, Flint, now our ington bureau chief, isn't likely awed by new-model introductions. probably be surprised to learn fron that OPEC notwithstanding, G Motors is only changing its tactic its strategy. "The ghost of Alfred S starts on page 34.

A bond bottom?

By definition, major turning points in markets come when opinion is almost unanimous: at a bottom, when everyone is so gloomy that all the prospective sellers have sold; at the top, when everybody is so euphoric that all the potential buyers have bought. So, a turn becomes inevitable. We may be close to such a major turning point in the long-battered bond market. That's what columnist Richard Hoey says this issue *(p. 173)*. Our own resident economic expert, Weberman, points out *(p. 31)* that est rates on long-term bonds have so high that there is a huge s between their yield and the inf rate—in favor of bonds. The cu spread is about 5 percentage p historically, normal is around 2.5 3%. Nothing lasts forever, and th year bear market in bonds may its final, climactic phase.

How to earn $16,700 per day

Karl Malden

Karl Malden is a distinguished actor. He was unforgettable in the 1952 Broadway revival of Eugene O'Neill's *Desire Under the Elms* and in many films, my favorite being his role as General Omar Bradley to George C. Scott's General George Patton in *Patton*. But it took those American Express TV commercials to make Malden a household word—household face, rather. Malden's craggy, honest visage is just the image American E wants, and so it pays M $500,000 over three yea just 30 days of his Chairman James Rob III considers the money spent because the day i coming when America press will be using TV lot more things than jus ing traveler's checks. what? To find out, read the cover by Senior Editor Tom O'Donnell. gins on page 100.

James W. Michaels
Editor

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The way West

While other farmers wrangle about federal subsidies and the like, the country's cattlemen are worried about estate and gift taxes. The National Cattlemen's Association is backing a bill sponsored by senators from Idaho, Iowa and Oklahoma that would end such taxes; in the meantime, they are agitating to have the rates reduced and more property exempted or dropped from the tax rolls. "These taxes have a devastating impact on family-owned farms, ranches and other closely held businesses," argues James Harper, a Kansas rancher who is vice chairman of the NCA's tax committee. "What incentive is there," he asks, "for a rancher to expand the business to make it more efficient or productive?"

Knowhow in Peking

The top item on Peking's latest shopping list is American management technology ("knowhow," the Chinese call it), instead of the steel mills and other huge complexes they were ordering a few years ago. That was the message received in China by Larry Farrell, president of Kepner-Tregoe, a Princeton, N.J. consulting firm. Along with almost every other businessman in the U.S., Farrell had written the Chinese about his services two years ago. He was ready to forget the offer when a peremptory telex arrived bidding him "welcome to Peking" and setting a December date. The Kepner-Tregoe team, after conducting one seminar in Peking and another (by special invitation) at an auto center in Manchuria, concluded, in Farrell's words, that "Chinese managers are starving for Western technology." Asked why his firm had been tapped, Farrell was told that his client list, which runs from IBM and General Motors to Nissan Motors and Kobe Steel, was the clincher. The U.S. and Japan are the models Peking's planners most respect and they apparently reasoned that what worked there should work in China. The upshot was a proposal that Kepner-Tregoe form a joint venture with a partner of Peking's choosing to give China its first pure management technology setup. The problem now is money. If it has to be Chinese yuan instead of foreign exchange, Farrell says, all bets are off. "I just wouldn't know what to do with yuan," he explains.

Tom Swift in Beverly Hills

The electric car is making its first run at the auto-rental market. Daniel Levitan, California distributor for Lectras, battery-powered cars manufactured by LectraMotors of Las Vegas, Nev., and holder of the Thrifty Rent-A-Car franchise in Beverly Hills, is adding them to his rental line as well as his showrooms. For the present, he will have the only agency renting electric automobiles. (Hertz, biggest in the field, says it has no plans for them.) For openers, Levitan plans to spend $3 million for 250 Lectras, basically Datsuns powered by eighteen 6-volt storage batteries. The rental tab at Levitan's Thrifty lots will be $50 a day; the stickers in his showrooms will offer standard-model Lectras—two-door, four-door, station wagon and pickup—for sale at a not-so-thrifty $13,000 to $18,000.

Sharing the pain

Fresh ammunition for the great debate about who's hurt most by the Reagan budget has been offered by the U.S. Conference of Mayors. A new survey of 100 cities ranging from 38,000 populat 7.3 million shows that most of then be cutting public services, firing wo or raising taxes if the President gets he wants. "In most cases," the warns in doomsday tones, "the R budget reductions will threaten to an already drastic situation worse. cities studied included the 50 la plus another 50 picked at random fo and geographic spread. Fifty-eight the cuts would mean reductions in p services; 48 said they would have off employees; 31, that they wou forced to raise taxes. The findings likely to serve different purposes fo ferent factions in Washington. Fe aid defenders are certain to use the arguments against the White Hous posals. At the same time, they v appear to counter the anguished from Snowbelt congressmen that th ministration is hitting them harder the Sunbelt. The mayors' report s that almost every urban area in the try will feel the pinch.

The Great Wall

Peking's planners now say they want brains, not bricks.

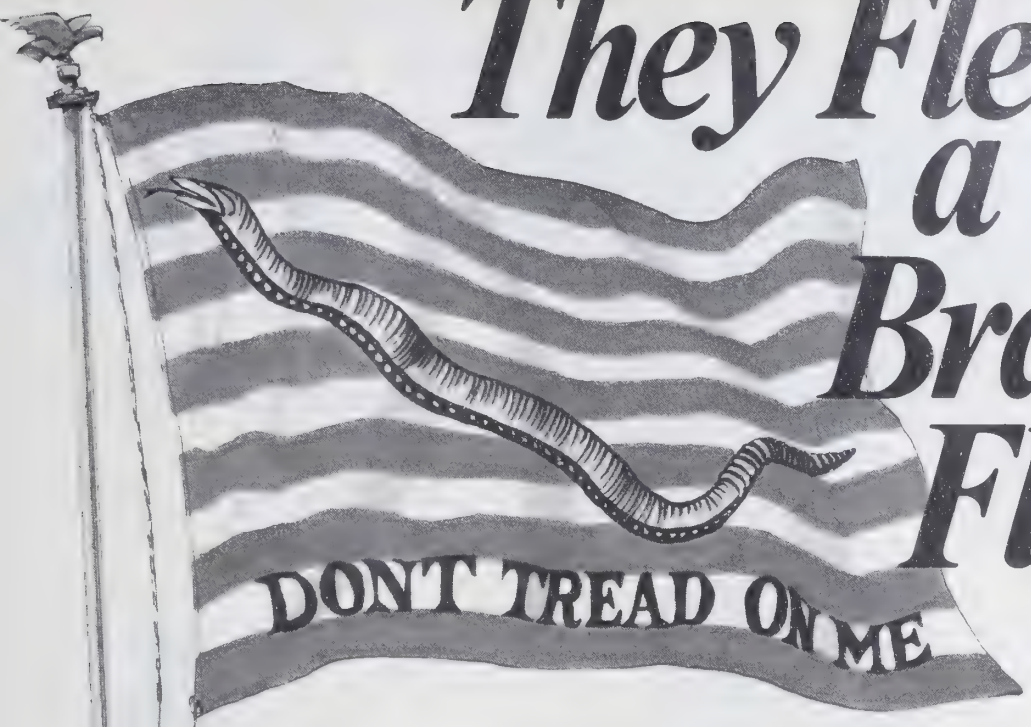
Scrap scrap

The buyers and the sellers of scrap are waging a war of numbers. In F ary, steelmakers, who use scrap a material, fired the first shot with a release from the American Iron & Institute saying that last year's ove scrap shipments, 11.2 million tons, record and had put a new squee U.S. supplies. Outraged, the Instit Scrap Iron & Steel returned the fi buying a two-page broadside ad. zoned in red ink, it charged the men with doctoring Commerce De ment figures to make 1980 a r year. Actually, the Commerce figu exports is the one the steelmen but the scrap-iron forces claim like 86,000 tons of used rail and 17 tons of stainless steel and alloys sl be excluded. Figured that way, the institute said triumphantly, 1980 not a record year. "We wanted to the truth to their attention," says schel Cutler, the scrap institute's e tive director. The steelmen's releas "not the norm for them and that's it required such a response." The merce Department has its own "It's rather childish," says an o there. "What the hell difference d make?"

Where the windfall will

What will Americans do with the money if the Reagan tax cuts cor pass: Blow it on an inflationary b spree (as opponents fear) or tuck it the bank (as proponents hope)? A s

They Flew a Brave Flag



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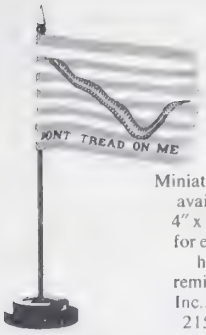

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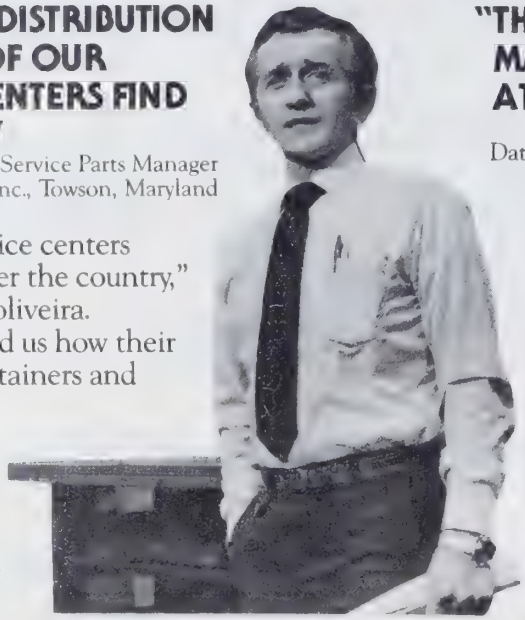

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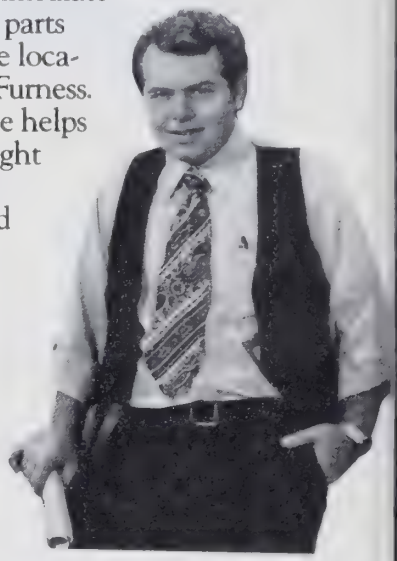

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for the U.S. Chamber of Com- will make pleasant reading for the House. After canvassing 1,200 olds by telephone, Opinion Re- Corp. found that 82% of the coun- xpayers intended to use part or all savings to build their bank ac- or to pay off debts. Only 18% said ould save 100% of the windfall, average amount cited was 55%. nneth Simonson, tax economist Chamber, this is fresh evidence e cuts would help the economy t fueling more inflation. The in- save ran straight across the in- spectrum: 75% of the families ncomes under $10,000 said they save part of the extra money; 82% $10,000-to-$25,000 bracket and f those over $25,000 said they do the same.

D-Day for taxes

s in New York would like to post- he effective date of the Reagan tax cuts. The Administration uly 1 and the Congress may well on Oct. 1, but the banks would hat the cuts take effect next Janu- ne postponement, according to Guaranty's economists, would financial markets a lift "without omising the basic integrity—and effectiveness—of the Reagan tax The advantage, Morgan argues, is would lower the Treasury's needs it by $15 billion in the last half of eaving that much more money in for businessmen seeking funds for rm expansion.

"Me" on campus

ne generation" is alive, well and college. Dean Hoge, a sociology or at Catholic University in gton, D.C., has analyzed his own of the attitudes of incoming en as well as the annual survey of en by the American Council on on. He concludes that the 1981 s tend to be "practical and priva- an erudite way of saying self- d. The new students, he says, getting more conservative politi- nd economically, but they still ne same personal and sexual free- hat their predecessors of the Six- d Seventies picketed to win. To- reshmen, Hoge says, arrive on "with their attitudes already There is less impact of college on students than in the past," he especially where values are con- " Hoge adds, he personally finds ults of his studies "depressing."

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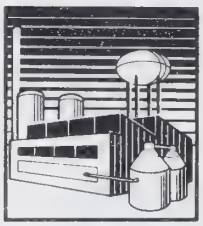

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Follow-Through

Who won the marathon?

The pickets were still marching but the real battle line in the marathon feud between J.P. Stevens & Co. and the Amalgamated Clothing & Textile Workers was in boardrooms hundreds of miles away, FORBES reported three years ago *(Mar. 20, 1978)*. To back up its conventional organizing tactics, the union had opened a second front and was pressing other corporations to purge their boardrooms of Stevens' then-chairman, James Finley, and to force outside executives to resign from Stevens' own board. This strategy eventually got Finley off the board of Manufacturers Hanover Corp. and parallel efforts resulted in the resignations of David Mitchell, chairman of Avon Products, and R. Manning Brown Jr., former chairman of New York Life, from the textile company's board.

By the time the troubles ended, in the 17th year, Hollywood had had time to produce a prizewinning movie, *Norma Rae*, that preceded the real-life settlement by two years. Stevens finally signed its first contract with Amalgamated in October 1980. Union and company then held separate press conferences to announce the good news, a tipoff that there was little brotherhood in the air.

The pact covered workers in 10 Stevens plants—but it left 70 others still unorganized. Nor did peace change any basic personal feelings. James Finley, the ironwilled chairman who had stood foursquare against the union for a decade, took early retirement at 63 in January 1980, but his views remain fixed. Reminiscing for a group of Columbia Busi School alumni recently, he repeated battle cry that "the principle at stake is letting workers decide whether o they want to join a union." Finley's cessor, Whitney Stevens, great-g grandson of the company's founder, "The agreement does not in any restrict us from opposing future u organizing efforts and we continue t openly and strongly opposed to unio our nonunion plants."

None of this comes as any surpri Murray Finley, president of the 445, member textile union (and no kin t former Stevens chairman). "We n asked to convert them," he says. "We wanted them to live up to the a ments, and they have." Organizing rest of Stevens' workers remains a p ity, Finley says, "but it is no longer n ber one on our list. We made an a ment and it's a fair one. I tell everyon now have proper relations with Steve

The union undoubtedly can justif claims to victory, after cracking a pany that had fought it off for almost decades. The psychological payo winning in the still strongly anti-u South is equally important. But Ste hardly came away empty-handed. boycott of its sheets and towels bro hardly a wrinkle to Stevens but the porate strategy of isolating the te giant from its business peers and n lenders did hurt. Under the settlem Amalgamated agreed to drop that paign and the man who had implem ed it, Ray Rogers, a onetime VISTA unteer, has left the union.

Rogers' tactics are remembered

Picket-line action in Norma Rae, *Hollywood's version of the Stevens strike*
In real life, the pace was slower and the results less clear-cut.

"We make money here."

"Why did your mpany move to Illinois?" henever this question is ked these days, one simple swer comes through loud d clear: "We make money re."

Actually, making oney is the reason 95 firms ilt new facilities in Illinois ring 1980. That ranks us n in the nation, and far ead of any state north of the midity belt.

Small wonder. ipping costs tend to be wer because over 2/3 of the tional GNP is produced thin 500 miles of our rders. We have more rail ackage, more commercial air utes, more inland water-ays, and very nearly more ghway mileage than any ner state.

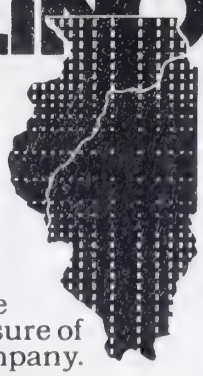
Energy availability nds to be greater because e have the nation's largest serves of bituminous coal, e largest storage capacity r natural gas, and the largest production of nuclear power.

Profits tend to be higher, because Illinois has the largest disposable income (per capita income minus per capita taxes) than any other industrial state.

Plus, we offer a favorable tax climate, an abundance of good, affordable housing, and a state government determined to help you prosper.

So, before you move your company to the humidity belt, please consider the moneybelt. Illinois.

ILLINOIS



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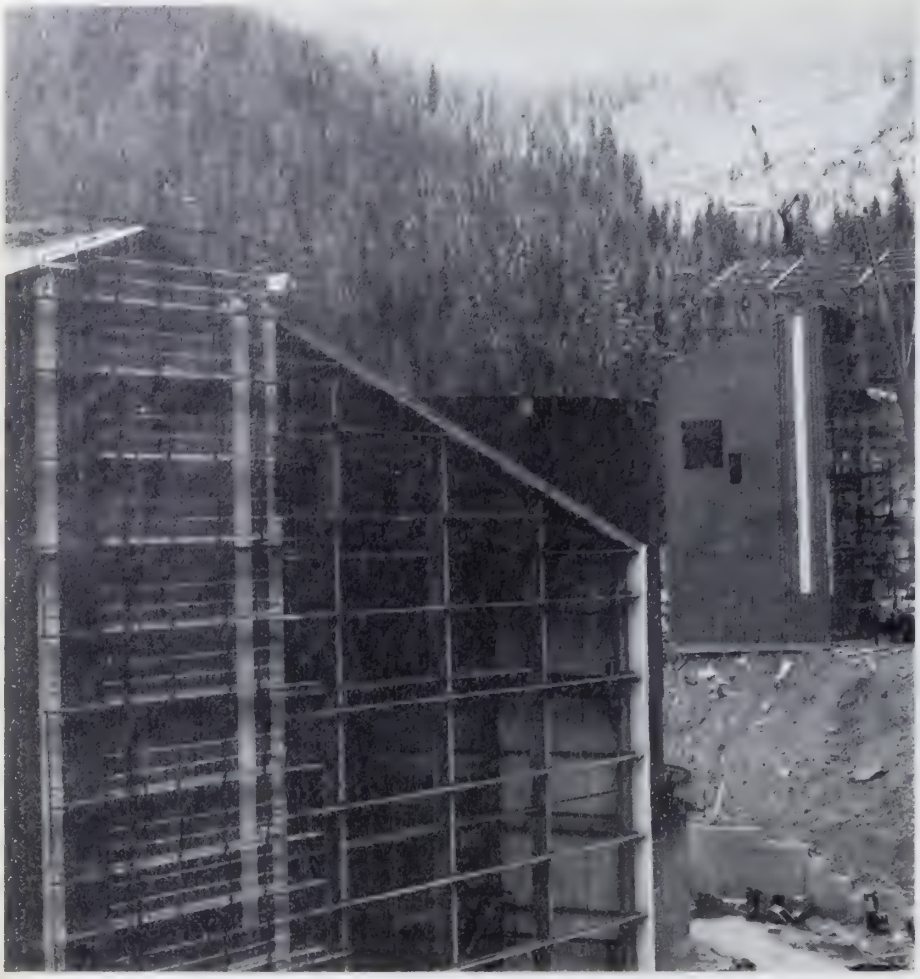
Asarco...meeting the metal needs of the 80's



Asarco's new Troy mine will be one of the largest silver mines in the United States.

with this new silver mine.

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For more information on Asarco, send for our latest Fact Book. Department 75, ASARCO Incorporated, 120 Broadway, New York, N.Y. 10271.

ASARCO
Metals & Minerals

Follow-Through

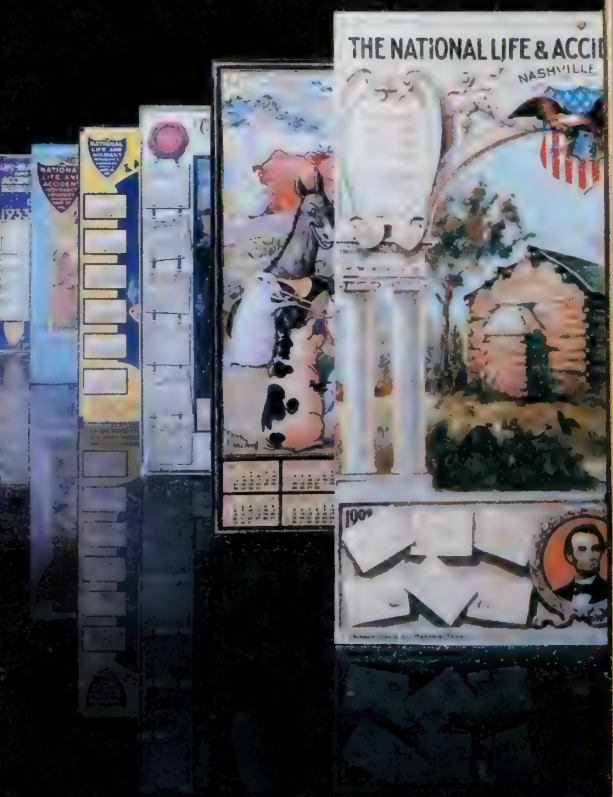
painful respect. The pressure on M
facturers Hanover, for instance, took
form of threats from big unions to
their huge pension funds and other
posits out of the bank if James Fi
stayed on the board. By threatening
insurance companies with proxy fi
to put union nominees on their bo
Rogers hit not only their corporate p
but their pocketbooks. It could have
New York Life several million dolla
send out the proxies, for example, a
that doubtless helped persuade its t
chairman, Manning Brown, to leave
Stevens board and Stevens' Finley to
(in "sorrow and anger," he says) as a
York Life director. By pursuing the s
tactic with Metropolitan Life, w
held $97 million of Stevens' $226 mi
long-term debt, Amalgamated bro
pressure from another and more pc
vantage point.

The move against Metropolitan c
early last fall and prompted the insur
company's chairman, Richard Shinn
have a chat with Whitney Stev
Shinn admitted that the price of
dling proxies to his 23 million po
holders would have cost between $5
lion and $7 million. He never put
pressure on Stevens, he insisted,
within a few weeks of their mee
peace broke out. (In similar fashion,
ous negotiations between Stevens
the union had got under way soon
James Finley retired in January 198C

The word was that the Stevens-A
gamated pact called for Ray Roger
vanish along with the so-called corpc
strategy. In keeping with the speak
evil policy that all sides seem to be
serving, he will not confirm this. Wh
er or not he was a sacrificial vic
however, Rogers does say that he
bored feelings of frustration while
toiling for Amalgamated. "I heard
getting me to go was part of the se
ment but I don't know that for a fact
says. "I would have left in any ev
There are other things I wanted to
With the new Stevens contract, he a
"The union is in a position to follo
on what it did. I hope they do. I am
certain that they will." As for the "c
things" he had in mind, one is Corpc
Campaign, Inc., a New York consu
firm he has formed to plan and d
labor organizing efforts. His first clie
expected to be the 33,000-member
Line Pilots Association.

The two protagonists best sum up
whole thing. "We are not in bed
each other," Murray Finley says, "b
least the shooting has stopped."
when asked what his company m
have done differently in the long s
gle, Whitney Stevens says: "Nothin

Since the early 1900's, millions of policyowners have gotten to know National Life and Accident as a friend of the family.



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NLT

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RACAL

The Electronics Group

Racal Electronics Limited, Bracknell, Berkshire RG12 1RG England.

Let Feds have it all

a tax reduction is inflationary, as Chairman of the House Ways & Committee Wilbur Mills suggests 3), perhaps we should send the ment our entire paycheck.
Willer
ero, Calif.

The difference

eresting, isn't it? The Japanese do en have a word for absenteeism; Swedes plan for absenteeism of 0% *(Apr. 27)*.
K. Lately
g, Wash.

lping Social Security

eryone who deserved and draws ial Security but doesn't really need is time should be given an incen- leave his in the system till some te when he *might* really need it. action could make an enormous the Social Security problem. might that incentive be? How credit added at a percentage com- ate with good returns on finan- truments?
Hansen
Ariz.

pporting employees

ur article on Fluor *(Mar. 30)* im- hat the $25,000 [starting salary] engineering was rare. At North- n University and many other good it is a frequent occurrence. Some um engineering graduates are now hing $30,000.
is unusual is Fluor Corp.'s policy ntion of its people through the nic swings. Many corporations the past wanted to cut the fat e payrolls got into the muscle and mes the bone; they have paid a ice in lost talent and in heavy and search fees.
R. Lindquist
Dean and Director,
nt Center
stern University
n, Ill.

ive balance with Brazil

a Fact and Comment *(Apr. 27)* ing the end of special U.S. tariff ions granted to Taiwan, Hong Mexico, South Korea and Brazil, you state: "Brazil says nuts to most of our exports." We export more to Brazil than we buy from it. In 1980 our exports to Brazil were $4.3 billion; our imports from Brazil were $3.7 billion, leaving us a favorable net balance of trade of $600 million.
—Harry L. Marks
Newton, Mass.

Wise look

SIR: Your [MSF's] glasses, when you appeared on the Merv Griffin show, slipped low on your nose, making both your eyebrows look amazed (your left one does naturally). You need a pair like your son's. The audience would think your financial analyses and comments not worth beans emanating from a person whose glasses were more on the nose than on the eyes.
—Walter T. Flaherty, M.D.
Ophthalmologist
Tustin, Calif.

MSF Jr.'s foresighted glasses.—MSF

Babcock & Wilcox tubing

SIR: Armco's National Supply Co. is credited with planning "the first substantial new tubing capacity in the industry since the Fifties" *(Mar. 16)*. Our Ambridge, Penna. seamless mill, started up in stages during the period 1974-77, is a new computer-controlled hot mill, and its finishing units for specialty steel tubing have added over 200,000 tons of seamless capacity. This is substantial.
—T.M. Krebs
Senior Vice President & Group Executive,
Babcock & Wilcox
Beaver Falls, Penna.

Put your money . . .

SIR: Your editorial comment *(Apr. 13)*, "It's Downright Outrageous That Those Big Oil Companies . . . ," was right on the mark. We concur wholeheartedly with your praise for Prudential Insurance who "will be investing $400 million as a limited partner in energy exploration projects."

Might FORBES magazine also be interested in serving the national interest by investing in a limited partnership in energy exploration projects? We have a number of such opportunities.
—Thomas G. Finck
President,
Moore & Munger Hydrocarbons, Inc.
Fairfield, Conn.

SIR: If you think more money should be going into energy projects, why don't you sink some of yours into it?
—Merrill W. Lakin
Jamaica, N.Y.

Not-so-indexed workers

SIR: In Other Comments *(Mar. 2)*, *U.S. News & World Report* stated that the percentage of union workers with cost-of-living clauses under major contracts has jumped from 28% to 57% since 1970. But analysis shows that in 1980, 30% of union workers received cost-of-living adjustments providing coverage for 70% of the rise in the rate of inflation; 27% received raises covering a meager 31% of inflation's toll. The remaining 43% of the unionized employees received no cost-of-living increase at all. It is a select group who are being compensated for the negative effects of inflation on the working-man's wage.
—Kathleen Lischko
New York, N.Y.

Correct data

SIR: In "Wall Street's changing affections" *(Apr. 27)*, Hamilton Brothers Petroleum Corp. was shown as having a price decline of 42% since Jan. 1. Your data fails to take into account a 50% stock dividend paid on Jan. 15. [Thus the change should have been –14%.] Our reported earnings for 1980 were $2.26 per share, rather than $1.37. The price/earnings ratio should be reflected as 10.8, and not 17.8.
—A.J. Miller
Executive Vice President,
Hamilton Brothers Petroleum Corp.
Denver, Colo.

SIR: The indicated dividend for Nortek should have been shown as $0.08 rather than $0.80.
—Michael Stevens
New York, N.Y.

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Two of Morgan's London-based IMM officers visit a client company in Germany. At right, Walter Gubert, head of IMM London, and Peter Mull

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The Morgan Bank

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

PRODUCTIVITY NOT THAT BAD—AND HEADED UP

oring—and exaggerating—our declining rate of produc- the amount produced per hours worked) is a favorite e of economists and other pontificating Doomdomes. rse worker productivity declines when sales of what e producing plummet—as with autos and construction th housing materials and furnishings.

n sales are *up*, so's productivity.

e longer term, increased productivity is virtually un- ble. Accelerated depreciation for new, more efficient and for automated machine tools will be one major contributor. Another factor will be fewer young, inexperienced workers coming into the marketplace. Concomitantly, the 20-year-old at 25 knows better how to do better what he is doing.

The third sound ground for optimism about markedly improved future productivity in the U.S. is that with each percentage-point drop in the rate of inflation—a decline is ahead—pressure for wage jumps will drop, too. That, in turn, will reduce pressure on unit labor costs.

Our productivity picture now is not as bad as painted and, for the future, is brighter than predicted.

UNCLE SAM TO GET BACK HIS EYES AND EARS

ık Bill Casey will get the CIA back on track store its shattered morale and ranks. Reac- abuses in the intelligence sector has been ne, has undone two federal agencies of ines- e necessity—the CIA as well as the FBI.

ing Vice Admiral Bobby Ray Inman as the Deputy Director is a ten-strike. In previous ots with defense intelligence, he's won the ence of the key Capitol Hill committees eep tabs on such activities. Admiral Inman is going to size our two-legged spy capabilities for which satellite technology has proven to be no substitute.

CIA's Bill Casey

Thank goodness, one thing the Reagan Administration and most of the nation (according to the polls) are agreed on is the urgency for these outfits to get back about their business.

America's enemies without and within (*i.e.*, the Mafia as well as terrorist embryos) don't play by Marquis of Queensberry rules. It's dangerously unintelligent to blind and handcuff the agencies to whom we must look for Intelligence.

In that game, nice guys—and nations—end up dumb or dead.

TO START UP HOUSING STARTS

kicker could come from some savvy entrepreneurial builders constructing modest homes and/or multiple type apartments that build in the basic energy-saving ents: use double (or triple) pane windows and insulation nout, including cellars and ceilings, as well as weather ng around doors; install one of the new furnaces that are nore efficient than the old; add a couple of hundred feet of solar panels to cut water heating bills in half; and face the house toward the sun when feasible.

Then promote them as being 60% or so more fuel-saving than any existing house of equivalent size.

Financing for such houses ought to be far more readily available. Whatever federal home mortgage programs continue should be redirected to provide lower loan rates for such homes than for any other housing.

And those oil companies that want to "diversify" because

they have a cash flow of such volume they don't know what to do with it can really fill an energy-related need by encouraging, through seed money or with more substantial sums, the home financing business. Homes, be they single or multiple, are more surefire inflation resistant than even investments in natural resources.

Imagine what heroes energy companies could be by helping to fill—profitably—our consuming housing need dreams. These huge oilers would be, so to speak, beatifie grateful public.

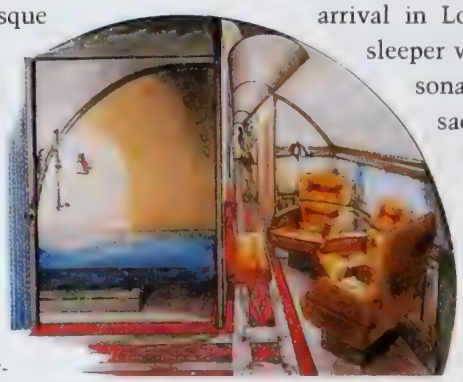
KUWAIT COPS IT

Tiny Kuwait, made inordinately big by joint U.S./British development of its oil, appeared to be carried away by having gotten away so long with attaching premiums on top of endless thumping price hikes for rolling out its barrels. In the face of customers' conservation and the development of alternative energy sources made necessary and possible by boundless OPEC price arrogance, this wee Persian Gulf sandland was refusing to look the current glut in the eye. Not only did it demand premiums on new contracts, but it tried to in them on contracts now in force.

Thank goodness Gulf, Royal Dutch and British Petro refused to accept Kuwaiti contract reneging on price. Sh the overthrow of its own sheikh-y government (and its ate neighbors') by Reds, the world's energy situation pro to shake out in price, production, consumption and al tives somewhere near present levels.

A SPLENDID IDEA WHOSE TIME HAS COME—AGAIN

When flying abroad first became feasible after World War II, thanks to the great Boeing Stratocruisers, Lockheed Constellations and Douglas DC-6s, the flight to London or Paris took 13 hours. For $25 extra, you got a Pullmanesque berth. Well-fed and sufficiently Spirited, you turned in for eight slumbering hours and were awakened for an ample breakfast a bit before landing.



The advent of jets cut five to six hours off Atlantic crossing time—murdering the old restfully civilized 13-hour way to go. In return for fewer hours aloft, travelers now lose 24 hours from jet lag.

Philippine Airlines, with its 747 upper-deck beds, and Pan Am, with its truly roomy sleeper seats, are recent steps in the right Rest direction. But from that colorfully exciting magazine *Next*—which deals with what's next—comes thrilling news for long-flight travelers: In White Plains, N.Y., a genius is at work on overcoming jet lag.

Leonard Greene, a knowledgeable aviation engineer-pilot-executive, is negotiating with a major airline to operate planes that his company plans to rebuild into flying sleepers. Le JFK after a full day's work and dinner, you'd arrive at you filled stateroom at 11 p.m. Instead of being turned o arrival in Los Angeles at 2 a.m. Pacific time, sleeper would be parked out of the way. At sonable breakfast time after eight hours i sack followed by a quick shower, you fresh to get off about your business.

Returning, this flying Pullman w depart the West Coast at midnight sengers could board at 11 p.m. or e and get at least six hours' sleep b deplaning at their New York airpo

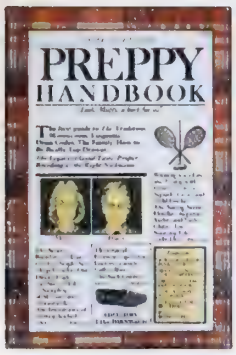
The same approach could event be applied to cross the Atlantic and Pacific.

Sure, it'll cost more. But for those many executives w time wisely spent means more money for many, the G way to go provides an additional full working day while a ing the costly discombobulation of jet lag.

Three thunderous cheers for Mr. Greene.

Up, Up and Away with him!

BOOKS



The Official Preppy Handbook—Edited by Lisa Birnbach (Workman Publishing, $3.95). While clothed in humor, this dissection of what constitutes Preppy is an all-earth catalog for those who want to be and those who've never outgrown it. The Accents Analysis and Attitudes Guide are among the funnier bits.

Excerpt: *Ennui . . . is the most consummately Prep of all attitudes . . . effortlessness is hereditary, but ennui is learned. . . . Cynicism is more than a pose; it's also a handy time-saver. By deflating your companion's enthusiasm, you can cut conversations in half.*

Mortal Questions—by Thomas Nagel (Cambridge University Press, $6.95). Heavy going but there's many a golden nugget to be mined from this philosophical analysis of our feelings on death, sex, politics, war and social stratifications.

Excerpt: *In ordinary life a situation is absurd when it includes a conspicuous discrepancy between pretension or aspiration and reality: someone gives a complicated speech in support of a motion that has already been passed; a notorious criminal is president of a major philanthropic foundation; you de your love over the telephone to a recorded announcemen you are being knighted, your pants fall down.*

NONE OF US HAS TO REACH VERY FAR BACK

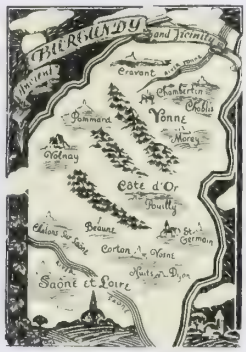
ıe up with personal anecdotes about the impact of ɔn on prices. Almost weekly our spouses return from the ıarket with "can you believe this" stories about much ɜnt into their shopping carts.

ıere's a really wistful Look Back—at the price of good wines. And it isn't just the inflation of the past half-dozen years on which this price tale hangs. Shown below are some prices from a 1935 Hotel Waldorf-Astoria illustrated wine list found among some old papers of my parents'. Note that only the years, not the language, have much changed.

BORDEAUX (RED)

1928 was a good vintage. It produced firmer wines which will require a little more time to come to perfection. 1926 has turned out much better than it was given credit for; there are some excellent 1926s.
1924—a very good year.
1923—quite a good year; the wine to drink now.

		Bottle	½ Bottle
Ch. Lafite Rothschild, Cachet du Chateau . . .	1924	$3.00	—
Ch. Latour Ier Grand Vin, Cachet du Chateau . . .	1925	3.50	—
Ch. Mouton Rothschild, Cachet du Chateau . . .	1924	4.50	—



		Bottle	½ Bottle
Ch. Haut Brion Ier Grand Vin, Cachet du Chateau . . .	1923	4.50	—

BURGUNDY (RED)

Chateauneuf du Pape, Grand Cru	1928	$3.00	$1.75
Pommard Epenots	1926	3.00	1.75
Chambertin	1923	4.00	—
Clos de Vougeot	1911	6.00	—

BURGUNDY (WHITE)

Chablis, Moutonne	1928	$4.00	—
Chablis, Cruse	—	3.50	—
Pouilly Fuisse	1926	2.50	1.50
Meursault	1926	3.00	1.75

WE WHO SWALLOW VARIOUS VITAMIN PILLS

daily dozen are becoming oblivious to the continuous ɡs and warnings of our so-called Consumer Protectors.

go right on swallowing our $1.3 billion worth of pre- Cs, Bs, As, Es and Zs (as in zinc) in spite of the fact s the *New York Times'* insightful Jane E. Brody ob- "more than 75 million Americans [are] excreting the ɜpensive urine in the world, since most of the vitamins ıerals consumed in excess of what the body truly needs dly eliminated."

ıse who, for heaven's or health's sake, is going to be able each day to achieve the required balanced diet? This, as described by Ms. Brody, consists "of mostly fresh foods from the four major food groups: four servings of vegetables and fruits, including one citrus fruit; four of breads, cereals and grains, including some whole grains; two of milk products and two of meat, fish, poultry or high-quality vegetable protein."

Surely popping pills is easier, more saving of time and even of dollars, than running that dietary obstacle course.

I dare say more die from an insufficiency of their A, B, Cs than from an overabundance.

WHEN YOU CATCH

what you're after, it's gone.

SURE THINGS

seldom are.

ALICE IN BUDGETLAND

By M.S. Forbes Jr.

few weeks ago, a handful of Re- licans tried to remove the head of Congressional Budget Office, Al- Rivlin, as a necessary first step in rming that agency. The effort ɜd, but the GOPers will certainly again. Let's hope that next time ɾ will succeed.

he Congressional Budget Office established in 1974 as a nonparti- agency that would provide Con- s "with detailed budget informa- and studies of the budget's im- and of alternative policies." If a gressman proposes, say, cutting l stamps 10%, the CBO would rn out elaborate computer-based ɜyses of the effects of such a move inflation, unemployment, federal ɜnues, etc.

he CBO and Mrs. Rivlin have won ıtations for producing independent economic reports that have enormous congressional impact.

But this image is misleading. Since inception, the CBO has served mainly to provide a cloak of legitimacy to Washington's disastrous tax-and-spend fiscal policies. Its studies would almost always show that the best thing for the economy was a big boost in federal spending, especially public works programs. Liberal Democrats—and some Republicans, too—would use the CBO as justification for their profligate activities.

True, the office uses computers, but politicos conveniently ignore the fact that computer output is only as good as its input. And the input is rigid Keynesianism—the belief that pouring money into the economy is what keeps it going and growing.

Here is what the CBO said about reductions of personal income taxes. "It is a relatively expensive way of reducing unemployment in terms of budget dollars per additional job."

The CBO's methods of analysis have other flaws—such as largely ignoring international trade—in addition to pooh-poohing the importance of reward and incentive.

Needless to say, Mrs. Rivlin's forecasts have mostly been inaccurate. Her office, for example, predicted the 1979 recession that never came.

Despite all this, many members of Congress still take CBO reports at face value. That's why the Senate Budget Committee nearly derailed the Reagan program last month—the CBO projected huge deficits in coming years.

Mrs. Rivlin and her economists may be nonpartisan when it comes to providing services for Democrats and Republicans. On the way it analyzes the economy, however, the CBO is highly biased indeed.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Heating up at Home

Households now gobble up some 22% of all the energy consumed in the United States; heating them alone accounts for about 12%. If the nation took, say, ten years to squeeze as much energy out of its housing as the researchers [at Princeton University's Center for Energy & Environmental Studies] say is possible, the accumulated annual saving would amount to roughly twice what [the Carter Administration had hoped] to be getting from synthetic fuels in 1990, at a fraction of the cost, with none of the environmental consequences—and with no noticeable change in living habits.

—Anthony J. Parisi, *New York Times*

Red News—Really

Aden—Representatives of Arab national liberation movements, fronts and progressive political parties accredited to Democratic Yemen have rated highly the Soviet Union's policy aimed at supporting the just struggle of national liberation movements and all peoples and peace-loving forces for freedom, independence and social progress.

Washington is resorting to deliberate distortion of the concept of "international terrorism" and confusing it with the concept of the peoples' just struggle for their national liberation.

American imperialism is using this campaign to camouflage its support for international terrorist activity. . . .

—*Pravda*

Hooker

Civil War Major General Joe Hooker's idea of military strategy was busing ladies of the night from Baltimore to the Union camps—that's the origin of the word "hooker."

—Anna Mayo, *Village Voice*

Koch Confessional

[New York City's Mayor Edward] Koch calls himself a "sane liberal." Actually, he's a pragmatist. Like other Sixties liberals, he has become skeptical of government, aware of limits, much more concerned with what works. He resembles a good many ex-communicants in reserving his harshest words for those who have remained members of the old church. "Knee-jerk liberals," he calls them, and he says, "I don't believe in half their crap. That government has to become bigger. That government is better if it does more. It's the New Deal out of the Thirties—that government solves all problems. I once believed that. I have contempt for government. I should know—I'm in it. When you remove the profit motive, that's what happens. You remove the penalty. There's always someone there to pick up the deficit. Not to hold you accountable. On several occasions kids have come in from the schools to visit me. This one kid said, 'Why doesn't the city have more athletic equipment, and give us bats and mitts?' I said, 'Wait a minute, kid. You look like the type of kid who has a mitt and bat. Why does government have to give them to you? Why not your parents?' "

—*Hard Feelings*, by Ken Auletta

Un-Everything

Today a family with two wage earners earning $35,000 in taxable income is in the 43% federal income marginal tax bracket, and when you add social security and state income tax to that you will put that striving, hard-working, committed American family into the 50% tax bracket and I believe that that is unjust, unfair, counterproductive, wrong. It must be changed and that is what our tax program will do.

—David Stockman, *Director, Office of Management and Budget*

Selfless Spirits

One may want to have a generous spirit, or regret not having one, but it makes no sense to condemn oneself or anyone else for a quality which is not within the control of the will. Condemnation implies that you should be like that, not that it is unfortu that you are.

—*Mortal Questi*
by Thomas N

Good music is music tha want to hear. Bad music is sic that I don't want to hear

—Fran Lebowitz, *Metropolitan*

Overlooking $70 Billion

The underground economy is grov twice as fast as the law-abiding, taxing segment of America. That's the est calculation by underground autho Peter M. Gutmann of Bernard Ba College in New York City.

Gutmann says on-the-sly activity expand to between $310 billion and $ billion this year, up from about $ billion in 1980. Others estimate that amount of business not officially rec ed is much higher than that.

About one out of five American involved, Gutmann says.

Result: Tax collectors are denie much as $70 billion a year.

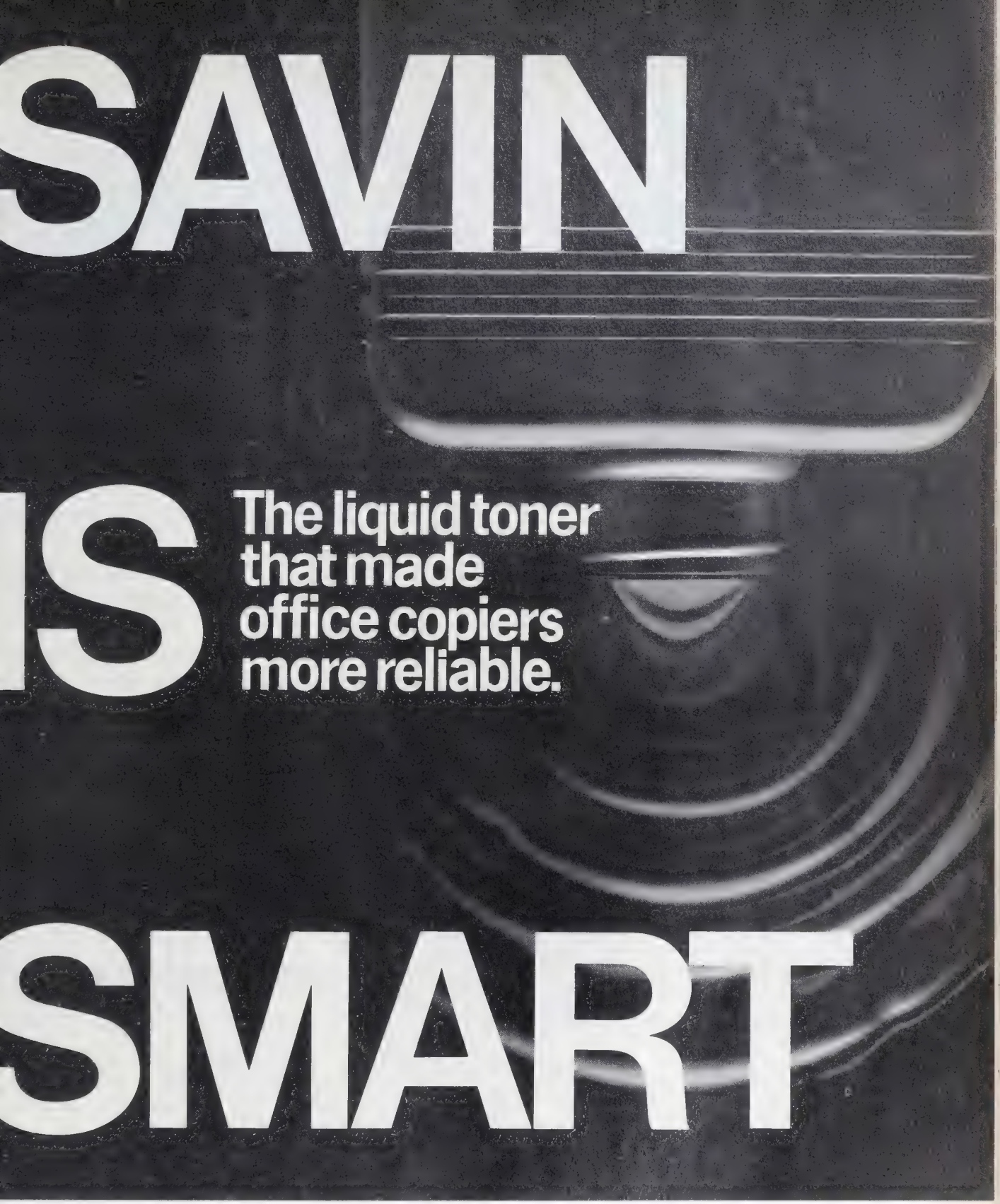
—*U.S. News & World Re*

Taking No Sides

Her roommate at [Mrs. Saunders' Miss Beach's Academy] was a . . . ref little girl, two years younger. . . . W they went to their room the first ni the little girl looked at her elder acqua ance. "Which side of the bed sha sleep?" she said deferentially. "Oh! perfectly immaterial to me which you sleep," said Anne in her clear, rin voice, "for I always sleep in the midd

—Susan Les
Recollections of My Mot
in *Antic*

"Oh-Oh! There go Papa's timed-release vitamins!"



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IT WON'T TURN ON A DIME

As we predicted, the economy's vigorous growth is slowing. Business, however, isn't going to get so sluggish that the country plunges into a recession, as it did during the second quarter of last year. But the level of expansion will certainly be slower than it had been during the early weeks of 1981. The Fed made sure of that when it raised the discount rate by a full percentage point. That jump came because of the fast-track expansion of the money supply in April. The late April figures were galloping ahead at an annual rate of over 20%—well above the central bankers' targets and far faster than they had anticipated. Even GNP growth, which hit an annual rate of 6.5% after inflation adjustments, was farlarger than most forecasters had predicted. So the Fed slammed on the brakes.

In two months, rates will tumble

There will be a brief period of confusion. It will take investors 30 to 60 days to recognize that the Fed won't need to squeeze very hard to make its point. Price increases are already slowing, and the goal of officials in Washington is to hold wage increases down to 7% or 8%, rather than the 10% to 12% levels that have been the rule. Once the impact of these policies is felt, probably by late May or early June, short-term interest rates will tumble. Long-term rates will head down shortly thereafter.

What's happening in individual economic sectors is highly unusual. April's strong growth numbers come despite the fact that there are no prominent areas of strength—with the possible exception of aerospace and defense. Meanwhile, two industries are in big trouble: automobiles and housing. The problem is how to slow the aggregate rate of expansion without putting too great a burden on these weak spots.

Inflation psychology is fading

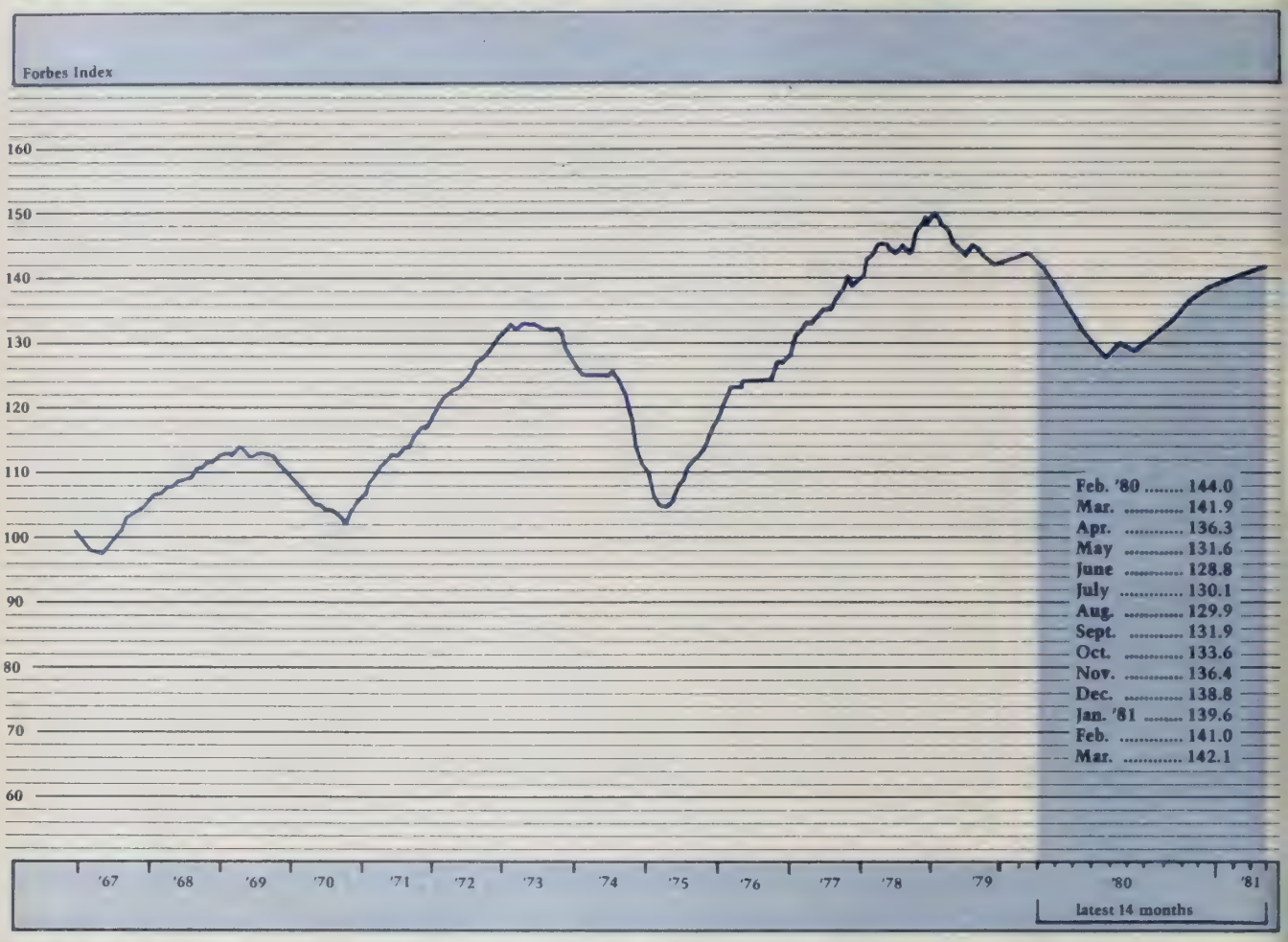
As the new dose of high interest-rate medicine takes hold and inflation begins to diminish, consumers will exhibit their own surprising turnaround. First, the spend-today-for-it-will-cost-more-tomorrow psychology will gradually fade away. In recent years, it actually made more sense to go into debt rather than to save. Much of the blame lies with low consumer loan charges governed by out-of-date usury ceilings, often at 12%. Rising prices meant that purchases were more expensive the longer buyers waited, and the lure of owning now and paying later with depreciated dollars made borrowing downright difficult for many people to resist.

Now, there is a major change of attitude under way. Usury ceilings are being lifted and price levels are settling down. Industrial raw materials and farm products have both posted relatively flat price comparisons, while the numbers for finished goods are up at an annual rate of 10%—a trend that is hardly alarming. Result: Individuals are no longer under the gun to borrow cheap and buy now as a curious way of "beating" inflation.

Expect a boost in savings

Watch how this will help the economy. As consumer spending falls, incomes will continue to grow. That means more money will be available for savings and capital investment. Supply-siders will love such a beneficial flow of funds—but it won't really be happening for the reasons they expect. People will save more not because taxes are lower but because the old inflation-fueled pressures to spend are gradually disappearing.

The Forbes Index



The Forbes Index Components

The economy's last hurrah? This issue the Forbes Index is still climbing, but don't be surprised if there's a downturn soon. Much of the spring strength comes from housing starts, which were up smartly in March. With interest rates soaring, however, that surge is unlikely to continue. At the same time, unemployment claims are rising fast—an ominous portent.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

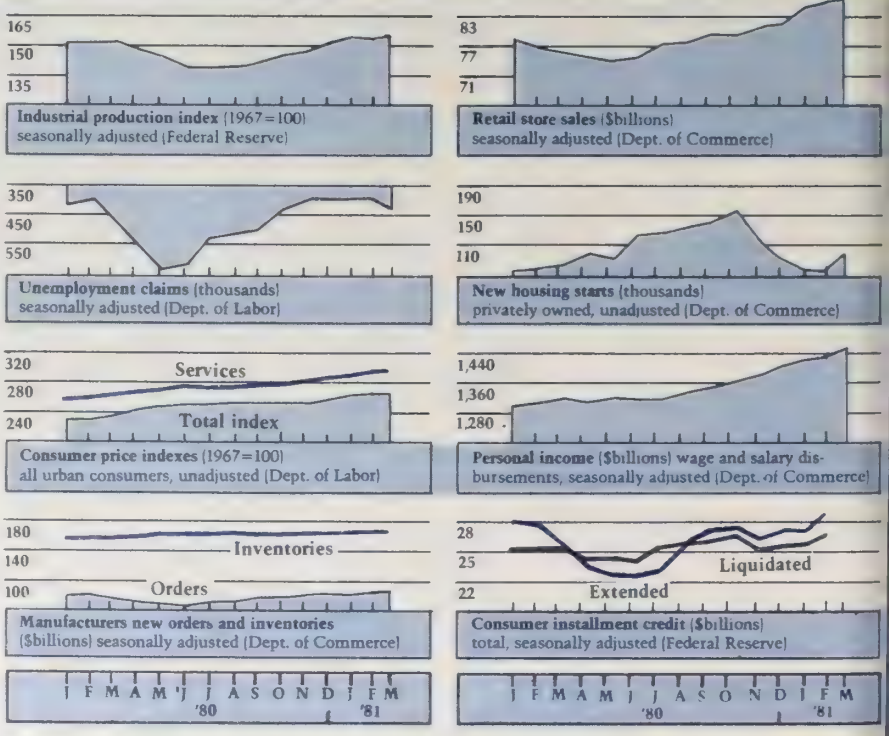
Total retail sales

New housing starts

Personal income

The change in the amount of consumer installment debt outstanding

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



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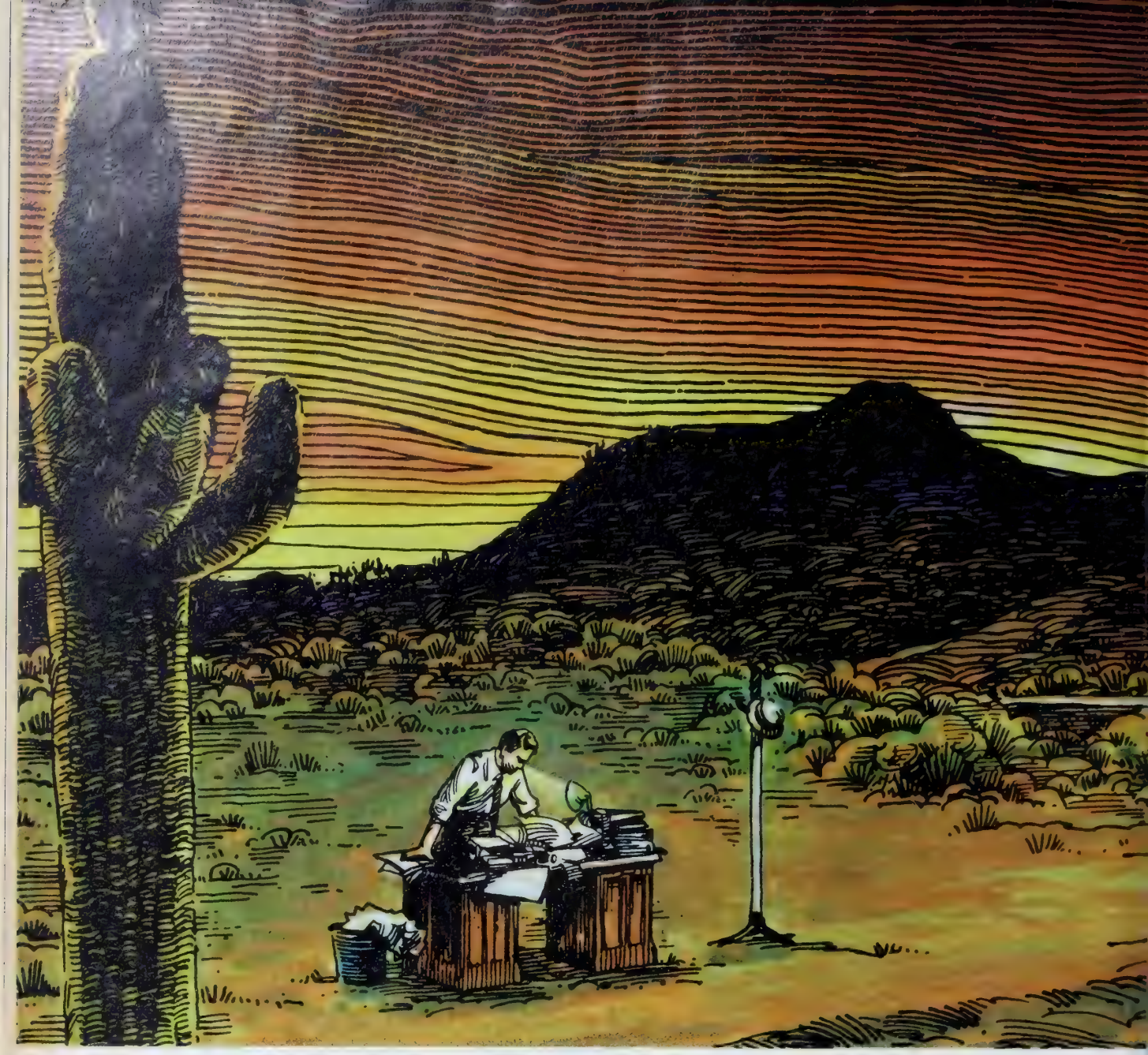

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in 40 years has the "real" return on ds—the gap between yields and infla- —been so high. Will the shell-shocked rket recognize that as a turning point?

An end to the long bear market?

By Ben Weberman

1966—A MILLENNIUM AGO, as the nd market reckons time these ys—Standard Oil Co. of Indiana 6% long-term debenture and all perts said we would never again generous a yield. Nine years later, tain States Telephone & Telegraph ⅛% debentures and once again the s thought, "Never again." Late last month, when Bell of Pennsylvania sold a long-term debenture and had to pay 15.1% to get rid of it, no expert was heard to say "never again." A wise silence. Within days, the issue was trading at 94, to yield better than 16%.

The silence from the experts may be wise, but it is not necessarily golden. Quite the contrary, there is reason to think the ongoing trauma in the market is leading to a rare moment in U.S. economic history—a major turn in what amounts to a 30-year bear market for bonds.

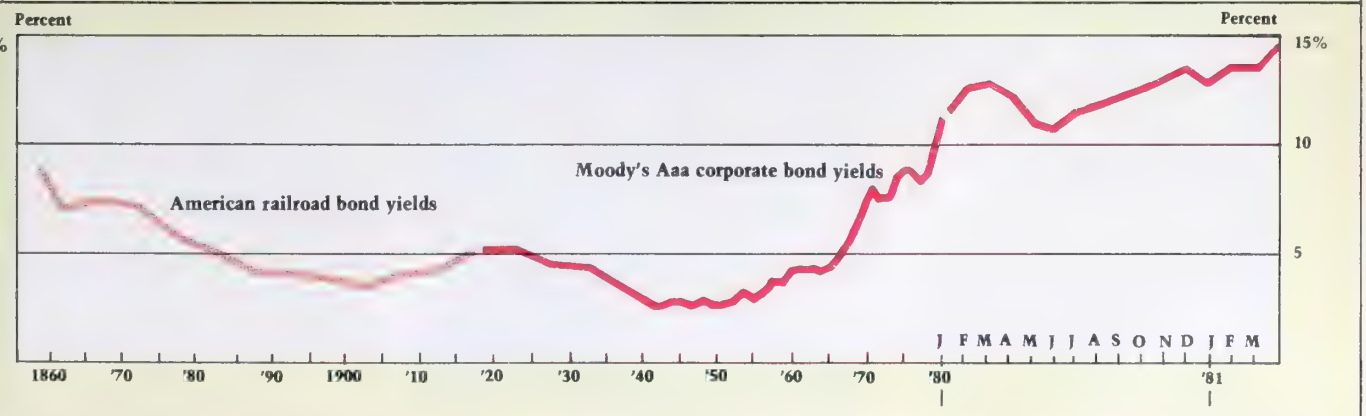
The turn is being clearly signaled: Not in anyone's memory have yields on long-term securities run so far ahead of the inflation rate for a sustained period, as they are now running. The underlying inflation rate is reckoned at around 10%. That gives a real return of about 5%, the highest since World War II. In 1972 bond yields averaged 7.2% and inflation was 4.6%, and that real return of 2.6%, well within the traditional range. In 1973, even before the full impact of OPEC's monopoly power over oil prices, bond yields were 7.5% and inflation was 13%—a *negative* return of 5.5%. That set the tone for the years since. Bonds were a sucker's game, a ticket to gradual confiscation. Smart people borrowed. Dumbbells lent.

In the history of modern finance, real returns have customarily ranged between 2% and 3%. Thus in a period of low or no inflation, a 2.5% yield on long-term Treasury bonds was customary and 4.5% mortgages were a good deal for lenders as well as for borrowers.

The market's continuing indifference to the fact that the real return on corporate bonds has been roughly double the traditional rate for the past 2½ months

The real thing in real returns

nflation is starting to slow, but long-term interest rates re still rising spectacularly, with corporate bond yields ven higher than before the Civil War. Real rates of return—bond yields related to inflation—are the best since World War II. Historically, real rates of return have ranged between 2% and 3%; now they are double that.



e: Bureau of Labor Statistics, National Bureau of Economic Research, Moody's Investor Service.

now defies logic, even common sense, but it is, for all that, easily explained. First, so many eyes have been riveted on the highly visible, heavily publicized *short-term* market—commercial banks' prime lending rate, six-month money market certificates, money market mutual funds—that the climb in long-term rates drew little notice from the people who select the news. Second, and undoubtedly far more important, after 2½ years of unprecedented and confidence-shattering double-digit inflation, individual and institutional investors in fixed-income securities are in shock. As yields have risen, the erosion in portfolio values has been ghastly. Long-term bonds purchased only five months ago lost 16% to 20% of their value. The situation has most of the earmarks of a typical bottom-of-the-market syndrome.

With so much blood still on the floor, it is hardly surprising that few investors and lenders seem ready to put out money for a long period of time at a fixed rate. That's why the money market mutual funds now manage portfolios valued at $118 billion, most of it pulled from accounts in savings and loan associations, from mutual savings banks and from commercial banks that had considered their savings deposits as a core of long-term deposits, which could be used to fund long-term credits. Instead of long-term investments in mortgage and capital facilities, money market mutual funds are committed by their natur investing money for 10 days to days—the average is about 45 da hardly conducive to support of the l term bond markets.

In the past, when markets collapse rapidly as this most recent one has, s of curtailed business activity and redu inflation would have touched off a r of sizable proportion. Investors w have become convinced that credit mands would shrink and that the Fed Reserve would ease credit policy to lo yields and stimulate business. Not time. Not yet anyhow. This time, af precipitous decline, the market rem shrouded in gloom. Markets always that way at a bottom. ■

Fed up with political decisions that make no economic sense, California's savings and loans are fleeing state regulation.

Enough is enough

By John Merwin

IT'S RARE THAT AN INDUSTRY faced with what it believes to be unreasonable restrictions can afford to tell government to take a flying leap. But that is exactly what several of the mammoth California S&Ls are doing. In late April three of the big six California S&Ls announced that they intend to abandon their state charters in favor of national charters and federal regulation. It's likely that more S&Ls will follow.

The reason is elementary, says Chairman James Montgomery of Great Western Financial Corp., owner of $10.4 billion Great Western Savings & Loan Corp.: "The liability side of our balance sheet has been deregulated, but the asset side has not." Montgomery has seen the interest he must pay on new six-month CDs rise some 49% over the last 30 months. As a result of decisions by the California Supreme Court and the state's delphic Governor Jerry Brown, the loans he must fund with those expensive deposits are locked in at lower rates. In 1978 the state Supreme Court ruled that all mortgages written by the state S&Ls could be assumed by qualified buyers. The result has been murder on the S&Ls in a period of rapidly rising interest rates. Lenders, on the basis of an industry rule of thumb, had assumed that most homes would turn over every

Great Western Chairman James Montgomery
"We can't afford to wait any longer."

six or seven years, allowing new m gages to be written at current ma rates. Instead, because of the court d sion, older 8% or 9% 30-year mortg "are starting to look like 30-year m gages," says Montgomery.

California home sellers are pas along 9% mortgages to eager buyers time when the going rate for new m gages is 15.5%. That bargain assu mortgage, plus some additional crea financing, is the reason at least s homes are still moving in Califo Meanwhile, S&Ls like Great West the nation's second largest, are pa 14.2% on six-month certificates of posit. At first-quarter's end Great W ern's average cost of money, 11.1% ceeded its 11% average yield from l and investments. Great Western st in the black only by income from var fees, but sank to 4 cents a share in first quarter, from 60 cents last year.

There seemed to be no relief in s for California's S&Ls. Last summer legislature considered a bill that w have allowed S&Ls to raise mortgag terest rates a maximum of 5% ove life of the loan, if market rates so di ed. A homeowner would have had option of making higher monthly ments or adding the higher interes the mortgage principle, in effect ext ing the life of the loan and paying additional interest in a lump sum w he sold the home. The variable-rate passed both houses by a combined 9 7 vote, but Brown vetoed it. Enr state S&L executives then began th ing about switching to federal chart

Their golden opportunity came a weeks ago, when the Federal Home Bank Board, now led by a Reaga pointee, Richard Pratt, deregulated mortgages that were written by fede chartered S&Ls. "I've been waiting better day for years now," says M gomery, whose Great Western, wit day's high interest rates, may be hea toward 1981 earnings of 25 to cents, *vs.* $4.15 only two years ag

think we can afford to wait any r." Neither could H.F. Ahmanson & which owns $12.8 billion (assets) e Savings and Loan Association, the n's largest. Its earnings this year are st at $1 a share at best, well below s $5.11. Home S&L is also seeking ral charter.

ile waiting to change to federal er—which should take several hs—California's S&Ls have just quit making 30-year loans, tempo- opting for safe five-year loans in- And their flow of deposits has up because they are not offering st competitive with the money —why bring the money in, they n, if you can't lend it out at a profit?

if the State Supreme Court and Brown haven't made life miserable h, Jim Montgomery has another ntor in California's S&L commis- , Linda Yang. She recently im- some conditions on a proposed r between Great Western and er, earnings-starved Financial Fed- n. Great Western must agree, nissioner Yang ruled, to meet the ry average lending volume to so-called low-loan areas, which constitute about 40% of the state. It's not that Montgomery minds lending in lower-income areas—he has been near the industry average for several years. But, he bristles, "I don't think government ought to impose quotas on us." That's another reason Great Western plans to walk away from its state charter.

When asked what she thought about the flight of state S&Ls, Commissioner Yang, holder of a master's degree in economics from Columbia University, replied, "It's too early to tell. The last chapter hasn't been written yet." Maybe not, but one immediate result of the defection will be a reduction in Yang's office budget, which is funded entirely by assessments on the state S&Ls. If the three other defecting S&Ls—Golden West, Mercury and Financial Federation, as well as Great Western and Ahmanson—are granted federal charters, the state S&L commission—Yang and a staff of 150—will lose more than one-third its budget. That's rough, but as Jim Montgomery knows, not nearly so rough as watching your earnings decline 85% or 90% in two years. ■

ing to cut even a paltry $500 million from benefits of retired federal employees usual- as been mission impossible on Capitol Hill. s time, though, it may be different.

The best little pension in town

By Desiree French

AST YEAR JIMMY CARTER tried to cut out one of the two cost-of-living adjustments built into the pen- of retired federal workers in order e about $500 million. Predictably lost. Shrugs one congressional : "It was an election year." But ear it may be different. For the first n a long while, something may be about the advantages civil service s enjoy over the rest of us.

be sure, $500 million or so isn't in a $655 billion-a-year govern- But a victory over the well-orga- civil service retirees would have tance far out of proportion to the nt. Listen to Senator William Roth Jr. (R–Del.), for example, chairman of the Governmental Affairs Committee, which oversees federal retirement programs: "People are increasingly aware of the fact that the country is in [economic] trouble. The President is calling for a sacrifice. Last year when Mr. Carter proposed the same thing it wasn't in a context that people took seriously." House Rules Committee Chairman Richard Bolling (D–Mo.) says it's unfair that federal retirees get twice as many inflation adjustments as those in the private sector. Here's how it works: Twice a year, in March and September, federal pensioners receive cost-of-living hikes based on percentage increases in the consumer price index from June to December of one year and from December to June of the next. Workers who retired under Civil Service, one of the largest of 38 federal retirement systems, average $959.39 a month in benefits, nearly 3 times those of Social Security. In March they got a 4.4% raise, and in September they'll get another hike. Social Security provides just one increase a year, and only *after* the CPI increases by 3% or more. Of all full-time workers in the private sector, only about 50% are even covered by pensions and, once retired, a mere 2.5% receive cost-of-living adjustments—let alone twice a year.

In short, federal retirees get more inflation adjustments, and they get the hikes in "real time." Most everyone else must play catch-up a year later.

The federal retirees are fighting, of course, to keep that advantage from being cut in half. Says Lillian Gardner, 71, a former public health nurse, "It would be like losing a job you've always had." Their argument is this: During their careers, federal retirees—most of whom *are not* covered by Social Security—contributed 7%, sometimes more, of their pay toward retirement. The rest of us contribute less than that to Social Security, 6.65% in most cases. Because they contribute more, federal retirees think they deserve more.

But consider: It's no secret that the Social Security system is in trouble because it is self-supporting; no other source of general government revenue is available to it. That's not true of the federal employees' retirement fund. Even though the workers' 7% contribution (matched by the government) currently isn't enough to cover benefits to the more than 2.5 million retirees, yet the system is financially sound. Why? Because taxpayers (who have, of course, paid the workers' salaries to begin with) fund the deficit. Last year, they picked up a shortfall of $9.8 billion. One reason for that deficit: The average retirement age with full benefits for civil servants is 58.6; for Social Security, it's 65.

More important, Social Security is not just a pension system. It's been tilting into a social welfare system, a tax to support the poorer segments in society. And that's a tax most government workers don't pay.

While these larger issues may not be addressed by Congress this year, cutting out one of the two cost-of-living adjustments has already been taken up. And even lobbyists like Judith Park, legislative director for the National Association of Retired Federal Employees, concede that there's a good chance Congress is now steeled to its task. "We're still going to fight just as hard as last year," says Park. "But it's a tougher battle because of the whole economic mood. And congressmen can always use the excuse that they have to support the President's program." This time, it may be different. ■

General Motors' new strategy is the old master's game plan slightly modified: Don't battle for the bottom of the market; upgrade the product and the customers.

The ghost of Alfred Sloan

By Jerry Flint

DETROIT'S CHRONIC OPTIMISM is the mask of the salesman who simply cannot afford to be any other way. At General Motors, the current troubles seem to have done little to dim that habit.

For example, General Motors Chairman Roger Smith talks to us about a possible 14 million car-truck-sales year in 1982 in the U.S., *vs.* maybe 12 million this year. FORBES does a bit of quick arithmetic. At its traditional market share, that could mean a 7 million-unit year for GM, we figure.

Seven million cars and trucks in 1982? GM's 1978 record is almost 7 million.

"I hear yuh," Roger Smith shoots back. Meaning: You're damned right.

You'll need a long stick to rake the money in, says FORBES.

"We're not in the business to lose money. We need it," Smith says. GM needs it, among other reasons, to help produce a higher price on its common stock. He says flatly that GM wouldn't sell new common shares to help finance the rebuilding program at anything like the price currrently, when GM doesn't even sell at book value.

"When have we always done our best?" Smith asks, elaborating on his theme. "It's when we are coming off a bad year and we're mean, lean and tough and running so fast. It takes us a while to fatten up and slow down once the volume hits us. Our record years have always followed downturns, and it isn't because the volume came up. It's because we've got the organization so hungry and lean that they're running like hell."

Lean and mean and running fast. Of course, GM would like a little help, including federal relaxation of some auto and factory regulations, and there's a friend in the White House now, and p posals for easing the rules are coming little help in Europe wouldn't hurt, ther. Last year European operations counted for $559 million in aftertax cr it losses. English GM was sick as usu German GM, the usual winner, was hu ing. A $2 billion operation is abuildin Spain but "nothing's coming out," no Smith, and won't until early 1983.

But no question. GM is running f rebuilding its plant and product. "Thi going to be the biggest year ever," s Howard Kehrl, vice chairman. That's the usual new-model hoopla. Some GM plants will be making four all-n lines of fuel-efficient vehicles befor year is past.

First are those well-publicized J c front-wheel drive, 88 horsepower and to 30 miles per gallon in the city, 47 the highway (by the testers' count). T is no "people's" car. They are aimed the top of the import market, sligh bigger and more expensive than Fo new Escorts and the VW Rabbit. T compete with $8,000 Hondas and line Toyotas and Datsuns. Productio under way in two plants for Chevro Pontiac and a few thousand to Cadi for a $14,000 version. As more pla start, Buick and Olds will get version

With the Canadian plant, th eventually will have 1.2 mil North American capacity, that volume is what produces big pro There's huge leverage in the auto b ness but you don't get it working m for you under a half-million units; million-plus the profits on higher-pri cars can be enormous. J car costs volume will be spread around the wo with production also slated in the U Brazil, West Germany, Japan, South A ca and Australia.

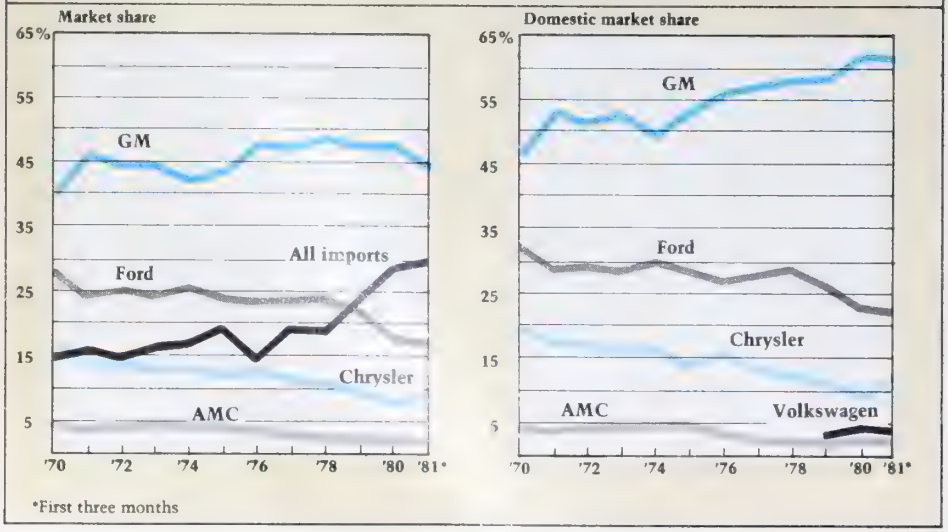
But the J cars are only the start of product parade. Next fall there will new front-wheel-drive intermediate-car, the "A" body in GM's alpha with four plants for 1 million capa for this more expensive car. "Event ly that will be *the* high-volume c guesses Kehrl.

GM's strategy comes into clear fo now. Kehrl talks about the intermed A ultimately being GM's big seller. T is aimed above the bottom of the im market. It's clear the corporation about to contest the market for b transportation with the Japanese rather will remain where it has alv been: dominant in the fat middle of market, where most buyers aspire t and where profits are high. Only r GM will be there with light, fuel-cient, but hardly the tiniest cars.

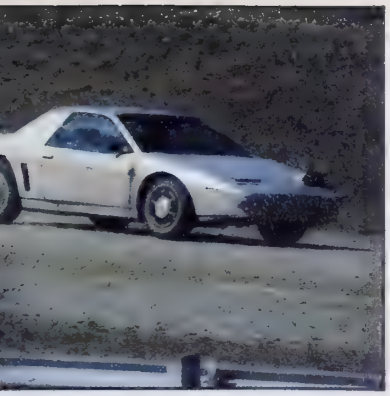
For additional fuel economy, the intermediates will have available a V-6 diesel as an extra cost option gives a combined city-highway 35 average, and the gasoline engine

Half the battle

Despite the industry slump, GM holds its market share against the imports. Result: a growing slice, more than 60%, of domestic sales against depressed Detroit competitors. The new J cars should reverse this year's slippage.



*First three months



close to 30 combined. "I defy you ow it's a diesel, it's that good," says. "I always live in deadly fear day the light turns green and you get across. This one, before that ets warmed up, it will be across."

's not all coming this fall: There e a new, lighter, sporty car, probringing top dollar, the Chevy Cand Pontiac Firebird, with 800,000 capacity. There will be a new tiny too, the first such model by a t company, the type the Japanese red, and sell here by the hundreds usands, to be built in three plants.

e autumn of 1982 GM will tackle gher-priced top of the market and ith a new front-wheel-drive, highage "B" body for Oldsmobile, nd Cadillac. Finally, the following a new minicar will be in produc- Spain, later in the U.S. possibly, a three-cylinder, 60-mpg-on-theay engine.

he strategy is committed. There's ning back. GM is going to concenon what market people call "upt" product.

buyers in that "up market" want , the quality they have heard the ns and Japanese build into their loors and hoods that *fit*, paint that *th* everywhere.

on't say we don't have troubles, we have troubles," says Kehrl. "We on each program." The J cars are ed to be better, he says. For exam- side of the new J four-door will be ed out of one piece of metal, not ed from several and then welded er. This means fewer joints and pots and a better fit.

his is well and good but GM seems k that new product, new manufac- methods, new types of automaon't turn the tide so long as it use $20-an-hour labor to compete 12-an-hour Japanese labor. GM alhas talked about contract reducbut its union, the United Auto rs, has said "no" so far, and only Chrysler when bankruptcy was ernative.

test may come in the fall of 1982, is new-contract time. Smith prehere will be none of the old mid-

Coming up: at right, GM's mid-size A body due this fall, probably the biggest seller tomorrow; middle, the sporty Camaro-Firebird type also due this fall. Coming later: left, Pontiac's two-seat plastic sportster.

night Sept. 14 strike-or-settle crisis.

"We and the union are going to find ourselves working to protect the worker," he says. His big target: Pay for time not worked. The question is: "Do we want all this pay for time not worked or do we want our jobs?" He doesn't just mean the "paid personal holidays," paid days off scattered throughout the year, the UAW's way of winning a four-day week. He talks about curbing "excess relief time"—the job breaks—and about some workers having little to do because of "work standards." Those are dynamite items with the UAW.

"I didn't say it was going to be easy," he says. A not-so-subtle hint to the union: "Listen, we didn't sell Terex (which made earth-moving equipment) or Frigidaire because we thought the plants weren't clean. We didn't close the New Departure plant in Clark, N.J. because we didn't like the color of the brick. It's because of labor costs."

While Smith didn't bring it up, everyone knows GM and Ford have shifted production of some major components abroad. If the union doesn't take the hint, the U.S. may face a miserable choice: the loss of thousands of additional jobs, or rigid protectionism, which would be bad news for the consumer and worse news for the world trade on which prosperity depends.

Profit-sharing with union members could be GM's quid pro quo. "If the employees give up labor costs to make us more profitable, they're entitled, I believe, to share in it." Why didn't GM offer profit-sharing before? "They always wanted it on top of something. Well, this is not going to be on top of something, but in place of something," he says.

Won't getting concessions in the fall of 1982 be impossible if GM's earnings recover? "It's always easier to get a favorable contract in a bad year," Smith admits. "But this is a long-term struggle between the American worker and his Japanese counterpart."

Roger Smith isn't just picking on the UAW. "Lean, hungry," he said, meaning in part that a lot of "old Charleys" are going to be let go. Smith is telling management that the old GM tradition—jobs protected by seniority—is out.

"We said that, with what we see coming down the road, we've got to get it back to Mr. [Alfred] Sloan's old principles of decentralization," Smith adds. "We've gotten too big, particularly here at the central office. We've gotten too big at the divisions and built up too heavy a staff."

There'll be fewer day-to-day, week-to-week reports coming in to headquarters. "We're going to set major objectives and then, at the end of the year, he's got to have his objectives met. There's going to be more of the bonus allocated on the basis of performance, and there's more risk; and the risk is promotion and hanging on to your job."

For all this whirlwind of activity, a gaping question remains: Can GM get back to its old profitability? Unless the answer is "yes," and fairly soon, at that, GM may have to scale back and cut back its ambitious rebuilding and product program—a new plant to be built at Kansas City has just been delayed—which would give its competitors, the foreign ones in particular, an opportunity to steal another march. GM's long-term corporate goal, Detroit legend has it, was a 20% aftertax (this was before taxes grew, of course) return on investment according to a formula worked out in the 1920s by the late Alfred P. Sloan Jr., the creator of the modern General Motors, and his financial aide, Donaldson Brown. At 20% on stockholders' equity, GM would earn $12 a share on the current numbers, close to $4 billion.

Trouble is, GM is no longer so dominant that it can set prices at whatever level it needs to get a given return on investment. It has lost control of pricing at the low end—the Japanese are the power there—and even its higher-priced cars mustn't march too far from the competition. At best, it can hope to regain control of costs. Says Smith: "The market is setting the prices now, the costs are controlled by inflation, and you've got to hang in there and see what you get in the end in terms of profit.

That's why those empty desks are down there. There are lots of them. We've got to learn to run thinner."

GM still uses those return-on-investment guidelines, particularly on make-versus-buy decisions and on new-product decisions, but 20% is on the high side now, says Smith. "Let me tell you what it's now governed on, the things that *have* to be done. A lot of our investments now are not discretionary. We have to go in and do it to get our car lines done. We have to turn some of the plants around."

Today GM has another guideline, too, he says: return on investment in fuel economy. "This guy wants to put an aluminum deck lid on, somebody else has a new idea for fiberglass leaf springs, somebody else has a different idea. You list all those things up there and look at them and rate them by their fuel-economy return. It's a new thing. If you sat Mr. Sloan and Mr. Bradley [Albert Bradley, who with Sloan led GM in its growth years] down and showed that to them now, they'd say, 'What in heaven's name are you doing?' "

Alfred Sloan might wonder about a good many things that are happening—or didn't happen. For example:

• GM *now* plans to buy robots by thousands but fell far behind such vanced technology, not only to the nese but also to Chrysler. And car te say GM's X body cars are no better battered Chrysler's K bodies which even a bit stingier on fuel.

• Price increases the past year a $1,235, or 13.2% uncompounded, ting the average GM car at $10,200. ting back to decent profits, past $ share, depends on buyers willing to that and more. This may be a hard s

• Talk of improving quality isn' same as improving quality. Long

GM's theory of relativity

General Motors made a lot of money on big cars in the old, pre-OPEC days. The table below shows that GM thinks it can do it again. Everyone is scaling down and lightening up their cars, but GM is clearly driving at the relatively heavy end of the price scale. The table groups selected styles of all the U.S. makers' passenger car models by base

	General Motors					Ford Motor		
	Chevrolet	Pontiac	Oldsmobile	Buick	Cadillac	Ford	Mercury	Lin
$4,000-4,999	Chevette Scooter							
$5,000-5,999	Chevette	T-1000*				Escort Escort L Mustang S*	Lynx Zephyr Zephyr S*	
$6,000-6,999	Citation Camaro Sport Coupe Chevette (diesel) Malibu	Phoenix Phoenix LJ	Omega	Skylark		Escort GL Escort GLX Escort SS Mustang Mustang Ghia Fairmont Fairmont Futura Granada	Capri Zephyr Z-7 Cougar	
$7,000-7,999	Camaro Berlinetta Malibu Classic Monte Carlo Coupe Impala Caprice Classic	Firebird Coupe LeMans Grand LeMans Grand Prix Catalina	Omega Brougham Cutlass	Skylark Sport Skylark Ltd. Century		Granada GL Granada GLX Thunderbird LTD S EXP*	Capri GS LN7*	
$8,000-8,999	Camaro Z-28 Monte Carlo Landau Caprice Classic Landau	Firebird Esprit Firebird Formula Firebird Trans Am Grand Prix LJ Bonneville	Cutlass LS Cutlass Brougham Cutlass Supreme Cutlass Supreme Brougham Cutlass Calais Delta 88 Delta 88 Royale Delta 88 Royale Brougham	Century Ltd. Regal Regal Ltd. LeSabre LeSabre Ltd.		LTD LTD Crown Victoria	Cougar XR-7 Marquis	
$9,000-9,999		Grand Prix Brougham Bonneville Brougham		Regal Sport Coupe		Thunderbird Town Landau	Marquis Brougham Grand Marquis	
$10,000-10,999			Ninety-Eight Luxury					
$11,000-11,999			Ninety-Eight Regency	Electra Ltd.		Thunderbird Heritage		
$12,000-13,999		Firebird Turbo SE*	Toronado	Riviera Electra Park Avenue				
$14,000-16,999	Corvette			Riviera T Type	deVille			Tow
Above $17,000					Eldorado Fleetwood Fleetwood Brougham Limousine Formal Limousine Seville			Con Ma

*New model

c used to brag about "zero defects" ver came close. Will those well-zed robots and new work atti-GM says are abuilding really make ence?

ne UAW may not be willing to give *thing*; GM's bargainers haven't nany concessions in the past. In-hey locked themselves into self-nating wage increases—an auto-3% with cost-of-living insurance, ntributory 30-year and 25-and-out ns and ever-expanding medical ge, which now costs more than per employee a year.

Sloan might wonder about some GM product decisions, as well:

Take its diesel engines, not the new V-6s coming this fall but the older V-8s used in expensive big cars. There have been stories of major problems, some caused by water in the oil, which damages the engine. "We never knew people were selling water for $1.37 a gallon and calling it diesel fuel," admits Chairman Roger Smith. But GM is the biggest maker of diesel engines—for trucks—and should have been aware of potential problems.

- Then there's the Cadillac 4-6-8 engine, which turns off cylinders to save fuel, which is certain to cause trouble and has. GM is likely to use this engine just one year, which means antagonizing its richest buyers for a one-year wonder.
- There's the decision to build a small Cadillac off the J body. This is supposed to be a "fun-to-drive" car. But the competition, German BMWs and Audis, run 0 to 60 in 10 to 11 seconds. The "fun" Cadillac does it in 15 to 16 seconds and it will take years to wipe the smirk off the BMW-Audi crowd, the sales target.

The biggest question of all, the one on which the fate of the company rests, is:

price—no options. The top three imports in the U.S. t have also been included. For simplicity, we've only the four-door sedan, where possible, to repre- entire model line. (Not shown are Chrysler's import s, like the Colt and Challenger, made by Mitsubishi s of Japan.) How do they measure up? GM, though well represented throughout the price spectrum, clearly dominates the high end with 16 models above $10,000, compared with Ford's 3 and Chrysler's 2. Meanwhile, watch the action in that lower right corner: The Japanese are infiltrating the $10,000-plus sector of the market with a total of six small-car entries. Can a "Toyota Seville" be far off?

	Chrysler						
	Dodge	Chrysler	Imperial	American Motors	Toyota	Datsun	Honda
				Spirit	Corolla Tercel	210 210 MPG	Civic 1300
iser* *	Omni Miser* Omni			Spirit DL Concord Eagle Kammback*	Starlet* Corolla Tercel Deluxe Corolla Corolla Deluxe	210 Deluxe 310	Civic 1500-DX*
stom*	Omni 024 Aries Aries Custom* Diplomat Sport Coupe	LeBaron Special		Concord DL Concord LTD Eagle Kammback DL* Eagle SX/4*	Corolla Tercel SR-5 Corolla Tercel SR-5 Sport Coupe Celica ST Sport Coupe Corona Deluxe	510 310 GX	Civic 1500-GL
	Aries SE* Diplomat Salon St. Regis	LeBaron Salon Cordoba LS		Eagle DL SX/4*	Ghia GT Sport Coupe Celica GTA Sport Coupe Corona Luxury Edition	200 SX 810 Deluxe	Accord Prelude Coupe
	Diplomat Medallion Mirada	LeBaron Medallion Cordoba Newport		Eagle DL Eagle Ltd.			Accord LX
		New Yorker				810 Maxima	
					Celica Supra Cressida	280 ZX Coupe	
						280 ZX 2+2 GL Coupe 280 ZX Turbo*	
			Imperial				

What if the old up-market strategy, modified now with an emphasis on fuel economy, doesn't work? What if it turns out that the automobile market has been reduced to a commodity market with a thin layer of specialty and superluxury cars on the fringe; tens of millions of Toyota types and a few hundred thousand BMWs, Rolls-Royces and Datsun 280Zs? If that is the case, GM will survive, but at a low level of profitability.

But Mr. Sloan wouldn't disagree with this strategy because it's just the one he and the old masters at General Motors created to win domination. They didn't build the cheapest cars; they figured the Americans of the 1920s, and later the 1940s and 1950s, wanted something better and were willing to pay more for it. And the volume grew so big—the economies of scale—that GM matched the competition on price, too.

Will the old strategy, reformulated now, work? Can you still give the customers 10% less car—at least in size—and charge them 20% more money for it? Are the customers willing to take a bit less fuel economy than the smaller minicars to get additional space and a better ride—as the buyers of the 1920s did when they turned away from Henry Ford's Model T and bought Alfred Sloan's more expensive Chevrolets?

The old strategy has two things going for it. One is that America still is a land of footloose people; it's not small cars they want but fuel-efficient cars. GM's other great strength is its size and operating efficiency. Only GM can produce a variety of car lines, each with sales volume in the 1 million range, where profits begin to mount.

All this assumes, of course, that oil isn't going to $100 a barrel very quickly. That would call for another technological revolution and force GM into another orgy of spending like the current one. Such a second revolution in the next couple of years seems unlikely. Changes from here will more likely be evolutionary. Alex Mair, who heads GM's technical staff, thinks 85 mpg is possible in a four-passenger diesel but possibly not for another decade. There's plenty of work still to be done. But even an accomplis ment like this would be far less, propo tionally, than the recent changes that a taking the average GM car from 12 mil per gallon in 1974 to 26 this fall.

When the current rebuilding progra is complete, GM will have a depreciati flow of $5 billion to $6 billion a year; should thus be able to finance a mo normal level of capital spending out depreciation once more and resume pa ing generous dividends.

General Motors has already given W Street a pleasant surprise in those po tive first-quarter earnings; The Stre talks earnings of $4 or $5 for the full ye Maryann Keller, the queen of auto an lysts from Paine, Webber, estimated $ share for 1982; some others go past $ After that? Even Chairman Smith sa the days of $15 to $20 a share are "co ing." He just won't say when. The aren't many around anymore who thi this company walks on water, but we put our bets on GM. There's still question that it remains one of t world's great industrial organizations.

That agreement to restrain sales of Japanese cars won't. But it gives the Japanese credit for something they might have done anyway.

Less than meets the eye

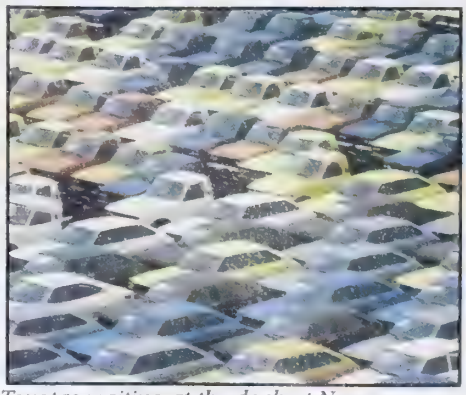
By Jerry Flint

THE SO-CALLED AGREEMENT to restrain Japanese auto imports might not reduce their U.S. auto sales much at all.

Under the terms of the highly publicized agreement with the Reagan dministration, the Japanese agreed voluntarily to reduce shipments to 1.68 million cars from the 1.82 million they sent to the U.S. in calendar 1980. That seems to mean that Japanese carmakers would have 140,000 fewer cars to sell in the U.S. this year.

But the Japanese date that one-year agreement from Apr. 1, and in recent months they have been shipping like mad. In the 1981 model year, from last September through the end of March, the Japanese shipped 122,000 more cars than they had the previous year. Those shipments were not in response to any sales surge; sales of Japanese cars in the U.S. have only matched levels of the previous model year.

So the shipments have built inventories for Japanese dealers in the U.S., who will now have about as many cars to sell this year as they had to sell last yea



Toyotas waiting at the dock at Nagoya
Gains by Honda and Mazda may slow.

That makes the agreement look lik lot less of a sacrifice than is being talk about. Moreover, in a year when Toy sales are down 2% and Datsun sales off 11%, Japanese carmakers as a gro would probably have been trimmi back shipments anyway—especially the new General Motors and Ford m els look to be capturing customers.

In addition, the 1.82 million cars Japanese use as an export figure is a low. American customs officials coun 2 million last year. The Japanese do include autos aimed at Puerto Rico vehicles like the Subaru Brats, wh look like trucks but which Subaru wa counted as cars here. And the figu don't include the hundreds of thousa of small trucks exported to the U.S.

The agreement's biggest competit effect may be on the Japanese, not American, companies. The surging co petitors like Honda and Mazda might their growth stopped while Toyota Datsun hold their positions—just when the caution flag is out in a car ra

When all is said, the only restrain effect of this agreement may be psyc logical. If American buyers shy from J anese dealerships believing that fe cars are available, or if those dealers p on supposed scarcity to hike charges "undercoating" or "dealer preparatio that could help American car sellers.

But Chevrolet General Manager R ert Lund has the best perspective on whole business when he says, "The solution to the problem is to beat competition in the marketplace." seldom win football games by negot ing with the other team. ■

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What if you chos
as a busines

"At Media General, HI 3000 distributed syste have paid for themselv less than two years."

Media General—headquarter Richmond, Virginia—owns n paper, broadcast, and newspr manufacturing operations thr out the U.S. The firm automa the classified advertising and subscription operations of sev member newspapers with six the 11 HP 3000 computers ins

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When performance must be measured by results

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00104

If our corporations can't easily compete with the Japanese, Wall Street and its emphasis on quarterly earnings comparisons bear much of the blame. So says Peter Drucker.

The wrong bottom line

By James Flanigan

PETER DRUCKER IS ALWAYS LIVELY. Having brought out his 17th book (*Toward the Next Economics*, Harper & Row, $11.95), the 71-year-old business strategist, philosopher and teacher sat down with FORBES recently and spoke bluntly about what's wrong with U.S. management.

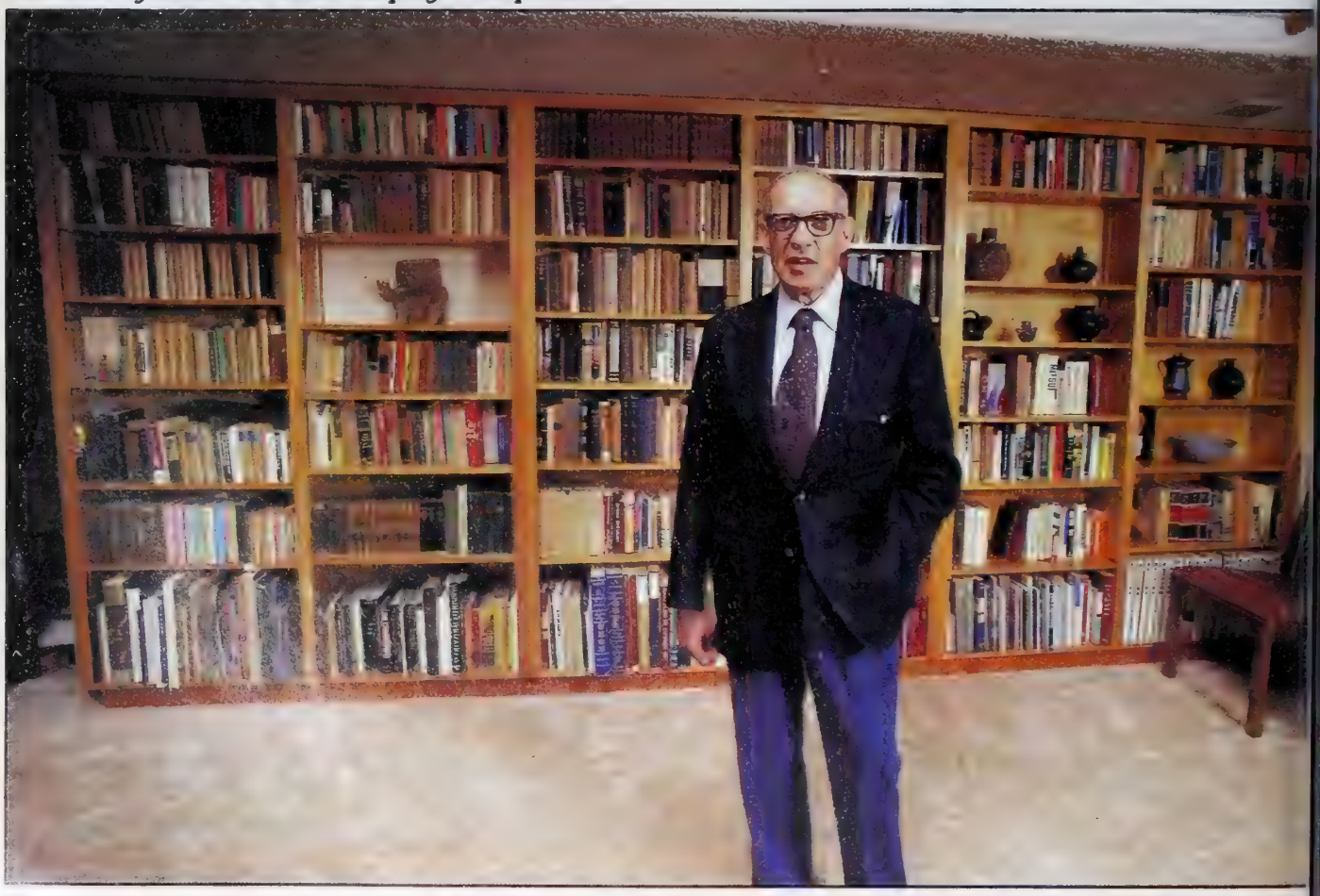
Drucker: We have a real problem in American business in that the pension funds, our way of capital intermediation, push companies into short-term thinking. And we have the takeover pressure, which may be greater. I know a number of high-technology companies that should plow back money long term, and know it, and don't do it because the pension funds are their source of capital. The companies have to maintain those 40-P/E ratios. The moment they show one quarter with disappointing results, the pension funds unload and they are being snapped up by Gulf & Western or Brascan or whichever piranha is out there. So we have to find a way to b ance a great achievement—the pens fund—with some way of managing the long term. And I don't know the w

FORBES: *We often hear invidious comp sons between American business and tha Germany and Japan. How is their method financing better than ours?*

The Japanese and Germans use commercial banks. The best exampl know is that of the Deutsche Bank a Siemens. The most successful Europ company today is probably Siemens. T Deutsche Bank, which has been c nected with Siemens since before 19 probably gets at least one-third of income from that one account. Direc and through shares of its customers posited with the bank, Deutsche Ba probably controls 50% of Siemens' sh capital. And yet you notice that Sieme dividend is perhaps 3% or 4% of revenue that Deutsche Bank gets fr Siemens.

The rest is from bread-and-butter co mercial business, letters of credit, dep its, commercial loans, export and imp credit. So the bank has little interest the Siemens dividend. And it has interest in any capital gain in Siem stock. The stock price is irrelevant to

Philosopher, teacher, author and raconteur Peter Drucker
Shortness of vision can make one prey to the piranha.

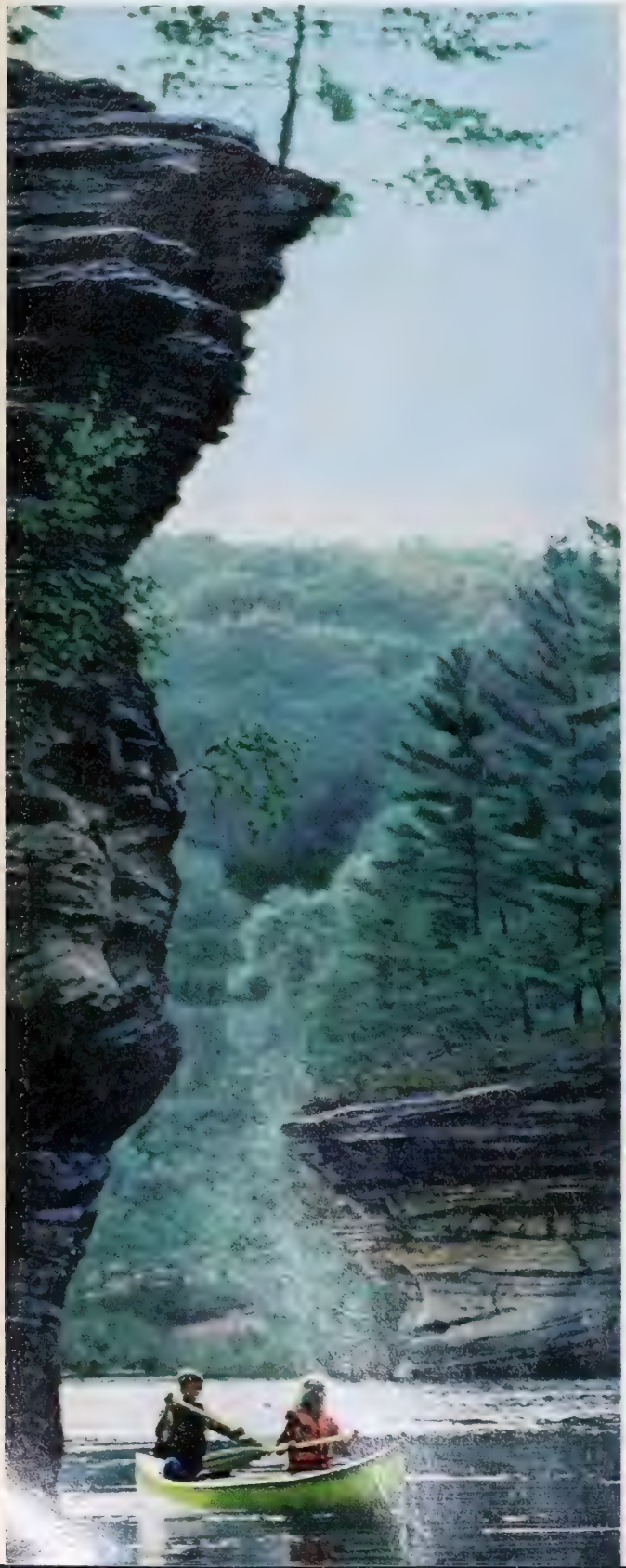


EAGRAM DISTILLERS CO., N.Y., N.Y.

Have you ever seen a grown man cry?

This is one of our home states: Wisconsin

Wisconsinites

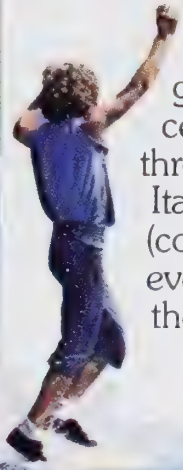


vant it all.

In its winding course to the Mississippi, the Wisconsin River powers enough plants, factories and mills to make it, easily, "th hardest working river in the nation."

And through that same course, especially through that canoeist paradise, the Wisconsin Dells, it is, with equal ease, one of the world's most beautiful.

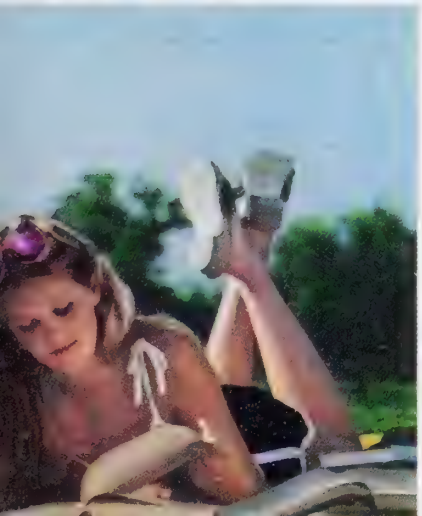
Like their river, Wisconsinites see no contradiction betweer hard work and natural beauty. At the University of Wisconsin at Madison, their students are expected to work hard—and also to enjoy one of the loveliest campuses in the country. Their fertile farmlands, dotted with silver-topped silos, are an ode to rural beauty—and productive enough to make them the nation's leading producer of milk, butter and cheese. Their factories turn out everything from sophisticated machine to the superbly-crafted paper for one of our famous brands of cigarettes—and work just as hard at preserving the environmer The river water, for instance, that enters our Wisconsin Tissue Mills leaves our plant cleaner than it entered.



Wisconsinites, in short, want it all. And having gotten it, they love to celebrate it. Fairs and festivals celebrate their ethnic diversity (from American Indian through Swiss, German, Polish, Norwegian, Dutch, Italian and a dozen others), their natural bounty (corn and cranberries, milk and apples), and everything else that appeals to them from fishing for the wily musky to log-rolling competitions.

Go for a festival, or just to relax—in air as crisp and clean and refreshing as a glass of our 7UP.

And if you do, we hope you'll stop at the home of our Miller Brewing Company in Milwaukee and join us in a glass of our Miller High Life, a beer which, like Wisconsin, "has it all" or our Lite Beer which "has it all—and less."



Philip Morris Incorporated

Good people make good things.

Makers of Marlboro, Benson & Hedges 100's, Merit, Parliament Lights, Virginia Slims and Cambridge, Miller High Life Beer, Lite Beer and Löwenbräu Special and Dark Special Beer; 7 UP and Diet 7 UP.

Philip Morris operating companies in Wisconsin are: Miller Brewing Company and Philip Morris Industrial, which includes Milprint, Nicolet Paper Co., Koch Label Company and Wisconsin Tissue Mills Inc.

bank. But the pressure on Siemens' managers—and believe me those German bankers are tough—is to build the business. The bankers can look five years ahead and make sure the managers don't slight the research expenditure.

But German companies do have substantial equity capital. In Japan even leading companies have debt ratios of 80%, with little equity and all power, as we understand it, in the hands of the government and the banks. How does that work?

In Japan the role of the banks is more extreme. Share holdings are tokens of mutual obligation. Toyota, for example, owns 4% of Kawasaki Steel, and Kawasaki owns 8% or 9% of Toyota because Kawasaki wants the sheet-steel business from Toyota and Toyota wants quality and prompt delivery from Kawasaki. But the stock has nothing to do with financing the business. The financing is bank loan, legally bank loan. But the Japanese distinguish, without ever saying so, very sharply between the part of the bank loan that is loan and the part that is equity. The bank doesn't buy shares but gives a loan that is 80% or 90% of the company's capital. And the bank and the company both know that half of the loan is equity, which means it may not be called normally. When the bank calls one yen of that equity, it is a signal. It means the bank has decided that the company should either merge or change its top management.

You know, when the Sultan of Constantinople wanted to get rid of his vizier, he sent him a silken cord to strangle himself. The equivalent of that in Japan is Mitsubishi Bank calling up—not the top man, but much further down, the assistant treasurer—and saying, "Times are tough, credit is stringent . . . what about paying us 100,000 yen on that portion we gave you eight years ago?" And after that gets up to top management they go and see the Mitsubishi Bank president. And he says, "Ishikabasan, I've been worried about your health. I think you need a long vacation. And to make it possible for you, I have asked Isorasan of my own staff *temporarily* to move in as president of your company."

This puts enormous power in the banks.

Only when things go wrong. The banks cannot abuse it. If they once abuse it, they've lost a customer. The bank will not affect management until the clan has huddled.

But this is a different society.

Totally. But, let me say, the banks therefore have no interest in dividends because they don't own shares. Their interest is covered in the long-term growth of the company and because they make their money on the commercial business.

There must be some disadvantages to these bank financing systems?

There are tremendous disadvantages, especially in Germany. No new young electrical company would dare go near the Deutsche Bank. And this is terrible. How do they finance themselves? The only reason the American multinationals could buy up all of the medium-size German family companies was that they were boxed in. You go to the Deutsche Bank and the Deutsche Bank swears that it only looks at what is in the best interest of the new, entrepreneurial customer who is going to compete in some area of Siemens' business. But who is going to believe it?

And in Japan you have a very similar pattern. The only one who really escaped it is Sony. And Sony has never been forgiven. When I first went to Japan, Sony was getting to the point where everybody said, "Sony must go to the banks and then it will be over. The banks will make sure those wild men behave."

"The greatest weakness of American business is the greatest strength of the Japanese, management of people. And all their ideas came from this country. Japan has a tradition of violent labor relations. One reason for the rise of the military was the labor strife in the Twenties."

You know what Akio Morita [Sony's founder] did? He took a plane and went to Morgan Guaranty and invented the American Depository Receipt. He's a brilliant man. He invented a form of financing without the help of any lawyer. But he went around the Japanese system to do it and he has not been forgiven. When the Ministry calls in the electronics industry, they don't call in Morita. They think he made fools of them.

So they have their weaknesses, too. But what's our *weakness?*

The greatest weakness of American business is people, and it is the greatest strength of the Japanese, the management of people. And all their ideas were imported from this country. Japan, you know, has the tradition of the most violent labor relations of any country in the world. One reason, not the only one, for the rise of the military was that the average Japanese was so sick and tired of labor strife in the Twenties, of bloody daily shooting and mobs. The society was close to civil war, and lawless. And so it welcomed the old virtues of the military. But when it all collapsed, the Japanese were forced to realize that the labor force had totally changed. It wasn't the illiterate peasants of 1900 anymore. And they then said, "Where do we find a new concept?" And they looked to country. All Japanese concepts of ma ing people and labor relations are no the Japanese tradition, but in the m of IBM. And they are only doing w IBM has been doing since 1930.

You mean the lifetime employment?

And the supervisors in the system the industrial engineers as a resou IBM was the first company where the man went through his plants and down with the workers and, much to annoyance of the supervisors, s "What can we do to help you do a be job?" I went with him one time and a said, "Mr. Watson, I know I can sort punch cards. All I need is somethin know where they go and what kin punch cards. The supervisor won't me." And old man Watson said, "Sl me what you want to do." And w they don't fire you, he said to the su visor: "Out. You're stopping people f doing a good job. You are being pai help her." And the Japanese started ing that. They started looking at pe and overcoming the incredible conte you had in Japan of the upper class fo peasant.

That's how they caught up with us. I did they get ahead of us in automobiles steel, for example?

Do you know that Japanese labor c are exactly the same as American l costs, except in our union-monopoly dustries, automobile and steel and ber? Prevailing American labor cos fringes and pensions included—are tween $14 and $16 per hour. Japa costs are exactly the same, in o words, $15. But in automobiles, C costs are $22 an hour, and GM is the cost American producer. So you l wage costs in our automobile indu that are from 50% higher to double prevailing rates. In Japan the autom industry is a high-wage industry, too, at maybe 20% above prevailing Japa levels, not 100%.

Who is responsible for the plight o automobile? Make it 50% union, government and the rest is managem Walter Reuther foresaw this. He very conscious of the danger of American automobile industry out ning the productivity base. He d know how to stop it, but he was worried about it. And his succes who are not great men, now realize we have the first union-made unem ment. Union-made largely because of the value added goes out to the fund in one way or another, and means that there is no capital format

That's what you talk about in your book: the need for an economics that phasizes capital formation.

Notice this—the most autom capital-intensive industry we hav commercial agriculture, and agricul is our star performer in exports. ■

es of skin care products are outpacing metics and fragrances. What's behind the wth? Not a new fad or a big marketing h. Customers are getting older.

Vanity, thy name is profit

By Howard Rudnitsky with Janet Bamford

VERY WOMAN IS LOOKING for the fountain of youth, including my wife," laughs a cynical retailing tive. "Today skin care sells faster fragrances and makeup."

k at the latest gaggle of new prod- Gillette is spending $17 million to h Aapri, a mass-marketed facial made of crushed apricot seeds. tely owned Estée Lauder is plumping viss Age-Controlling Skincare pro- Sold through department stores, it is heavily promoted. Revlon, mean-, is touting its recently introduced ean Collagen Complex, which s a "new" natural skin softener. is also launching a cream with gen called Accolade. Early last year eth Arden gushingly introduced renewal accelerating" Millenium. A kin care regimen, it retails for $95.

at's behind all this activity? Jim oner, an analyst at Bear, Stearns, "Women and men aged 30 to 45 are stest-growing segment of the U.S. ation. Those people wake up one nd say, 'That's not me in the mir- it?' So the cosmetics manufactur- e merely meeting the current prod- eeds of their aging customers."

e economics is equally favorable. care has the highest profitability three major cosmetics categories," Suzanne Grayson, a consultant who worked for Revlon. The cost of is lower than for fragrances or d cosmetics. That leaves more for otion and selling costs. Moisturiz- ream cleansers and soaps have oth- rtues, too. The number of stock- ng units is smaller than for shaded or perfumes, which come in a broad of colors or fragrances. Result: un- ly fat profit margins for both manu- ers and retailers.

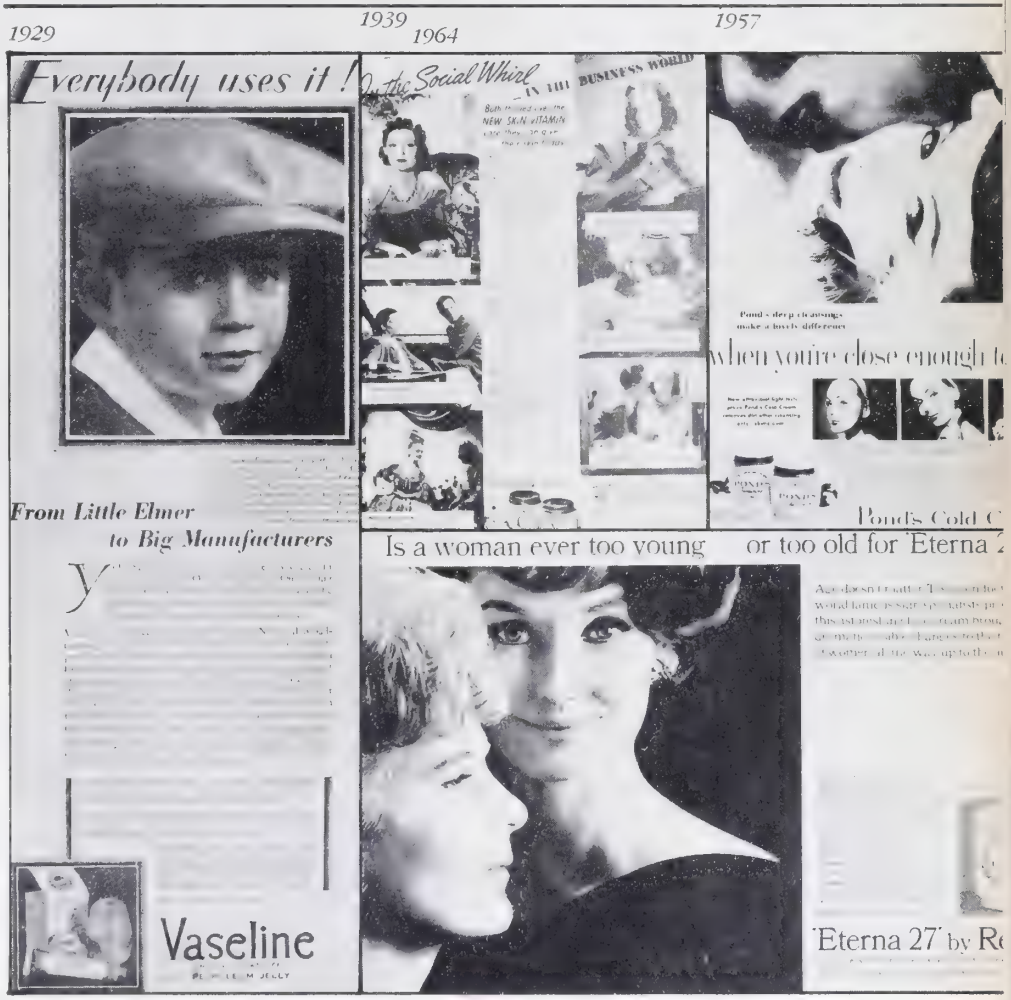
le wonder then that skin care is a $1 billion-a-year business at the retail level. The market ranges from supermarket and drugstore items like Pond's cold cream and Jergens Lotion to the ritzy regimens of the specialty department store lines. Beyond this, there are specialty salons like Georgette Klinger and Erno Laszlo that sell their own brand-name products. Growth can reach 15% to 20% annually in the better face cream and lotion categories.

Such big corporations as American Brands, Chesebrough-Pond's, Procter & Gamble and Revlon have a piece of the action. So do such smaller competitors as Noxell and Neutrogena and private companies like Bonne Bell and Vidal Sassoon. Mary Kay Cosmetics commands a 20-times-earnings multiple by selling eternal beauty door-to-door. In simplest terms, however, the skin care business divides into three major markets—and at the moment each has its clear leader.

Look first at the low-priced segment, which probably accounts for 35% of total revenues. A decade ago management at Chesebrough-Pond's, which made long-dominant Vaseline petroleum jelly as well as Pond's facial cream, decided prospects were even better in hand lotion. So C-P brought out Vaseline Intensive Care to take on market leader Jergens. VIC's pitch was therapeutic skin care. Jergens' was softness. After a year, VIC overtook Jergens, eventually grabbing a 26% market share.

In late 1977, however, giant Procter & Gamble began test marketing Wondra, aimed directly at Intensive Care. C-P quickly reformulated its product, sent out samples and offered a two-for-the-price-of-one deal in the stores—loading up customers with about a half year's supply. Then C-P shrewdly launched

Plus ça change . . . *In the 1920s "skin-vitamins" and the utilitarian value of Vaseline were the attraction. By the 1960s, it was younger skin after 40 days.*



Pond's Cream & Cocoa Butter, a scented lotion much like Wondra. Still, P&G poured on the advertising and promotion—doling out an estimated $15 million in 1979, Wondra's first year of full distribution. However, P&G's penetration of the $200 million a year hand lotion market peaked at 10.5% (it's now below 8%), while C-P maintained a 27% share with its two entries.

P&G's heavy spending, of course, helped the entire market, which had been growing only slowly. But one major hand lotion brand, Rose Milk, now owned by Nabisco's J.B. Williams subsidiary, fell behind in the shuffle.

On the other hand, smallish independent Noxell Corp. managed to continue to fare well in the low-priced skin care market by split-positioning medicated Noxzema. A fat $8 million annual advertising budget positions the product both as a sunburn remedy and a hand and facial cream.

Perhaps the smoothest skin care success story, however, is Richardson-Vicks' Oil of Olay. Last year Olay's retail sales topped $100 million in the U.S. alone, over one-third of the $250 million face cream market. A decade ago the U.S. firm acquired the product from two South African entrepreneurs, when worldwide sales were $10 million annually. In 1981 Oil of Olay's U.S. advertising budget alone is over $30 million.

Richardson-Vicks' marketing strategy was classic. Oil of Olay is sold mainly in drugstores and supermarkets as a premium-priced product. It sells for $3.50 to $5 or so for a four-ounce bottle—more than most cosmetic lotions in mass-distribution outlets. The company spent big to build a sense of mystery around it. "Olay was basically a skin lotion before they turned it into a cosmetic," says Bear, Stearns' Jim Waggoner. "Now a consumer can play the cosmetics game at $5 a bottle rather than $15 a bottle or more. It was really shrewd positioning."

So far no one has been able to compete effectively with Oil of Olay, and its 15% or so aftertax margins should bring in hefty profits this year. Richardson-Vicks has since extended the line with Night of Olay, which has $12 million-plus in U.S. sales. Beyond that, Richardson-Vicks is test-marketing 60-40-20, a new facial cleanser. Clearasil, the company's older anti-acne product, is experiencing renewed growth.

Finally, there is the higher priced department store trade, and the walkaway leader there is Clinique, an Estée Lauder company. Clinique started in the l 1960s with a full line of therapeutic sl care products, a practice in vogue nc but then unprecedented. Clinique moderately priced ($7 to $22.50). Tc Clinique sales at retail, including c metics, could exceed $100 million t year. Its success was rare: Between 19 and 1980 there were dozens of rela launches in the skin care field and Cli que was the only major winner.

One that didn't score big was R lon's Etherea line, which v rushed to the stores mon after Clinique's debut. Later Rev skin care products haven't proven winners either. "Revlon never rea went after it the way Clinique di says an industry executive. "The peo who bought Clinique liked the scien ic, therapeutic attitude behind it. T was costly, but the Lauders spent money, took the losses for a while a nourished the business."

Too, Lauder's Clinique sells largely department stores, an advantage o Revlon, which also sells to discount c lets. "Some stores aren't interested building Revlon skin care sales beca the customer doesn't have to come b to us to buy the product again," says buyer at a midwestern department st "She can go to a discounter and get same stuff for less."

Big-name retailers can afford to choosy. Skin care marketers are vy for counter space in the cosmetics partment. One way to get space is co puterized beauty analysis. "Revlon Clinique use it," says a marketing m "It's a Ouija board. You ask all th questions and the answers will come c translated into 'buy my product.' "

Another in-store merchandising ai sampling—an approach used extensiv A customer who buys one product r get another free or at a discount. T there's the push for using a comp regimen. "They tell you their produ are designed to work together and if mix brands you won't get good resul says a retailer. "It's a good psycholog gimmick."

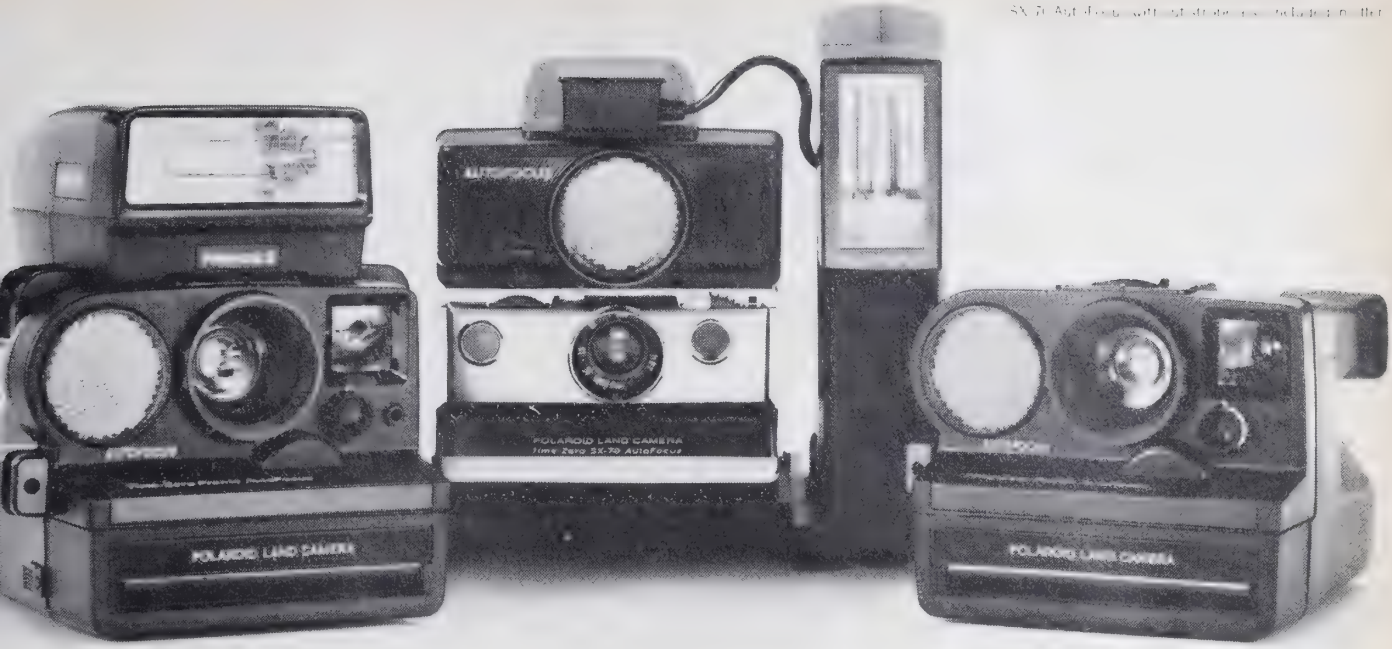
Indeed, psychology plays a key rol the entire skin care game. Is ther substantial difference between expens formulations and moderate-priced or Probably not. Today most companies out a decent product. The ingredie may differ, but some say the rest aren't very different.

That's all debatable. What isn't is t skin care products are selling faste the population ages. And more com nies are pushing into this profitable m ket, which will at least double in during the Eighties. There's a beauty battle ahead. When it is over, custom may have a few less wrinkles. But people who peddle cosmetics will ha few more. ■

1970s

1981

...plus c'est la meme chose. ***In the 1970s, the skin care purveyors opted for the therapeutic sell. Today it's the "scientific" way to remain young-looking.***



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© 1981 Polaroid Corp. "Polaroid," "SX-70," "Pronto" and "Time-Zero"® Limit one digital chronograph per family. Camera must be purchased between June 30, 1981 and [illegible] postmarked no later than [illegible] 31, 1981.

Making energy out of garbage has turned out to be, so far, one of those great ideas that cost too much. A county in central New York thinks it has the solution. But is it only . . .

Garbage in, garbage out?

By Alyssa A. Lappen

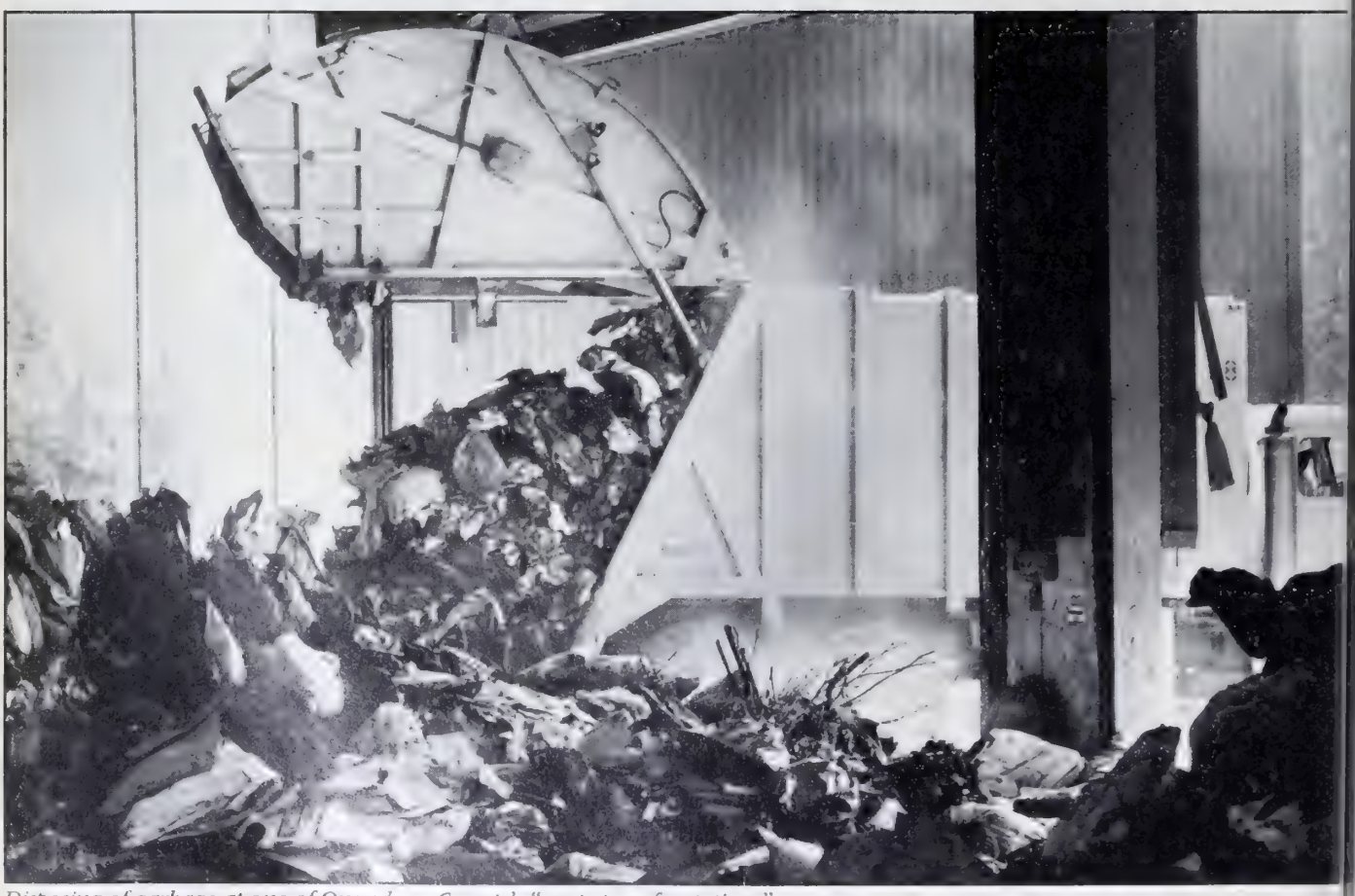
"NO DOUBT ABOUT IT, we do have a crisis here," says William Thomas, who has the grand title of Project Director of Resource Recovery for Onondaga County, N.Y.

Four miles from his office in downtown Syracuse, trucks from nine communities rumble in to unload garbage at the county's two "waste transfer stations," where 750 tons a day are shredded and compacted, then trucked to the county's landfill dump off Route 5. Like dozens of other communities around the country, Onondaga County must soon find some other manner of disposing of its garbage because it is simply running out of viable dumping sites.

By 1984, the county hopes a $90 million, 1,400-ton-per-day energy-from-waste plant will be in operation across Rock Cut Road from the shredding station. The garbage will be burned to make steam and generate electricity for sale to a utility and other big users. The only problem with that, as others have discovered, is that while garbage-to-energy may be a great idea, it has thus far pro to be expensive. Introduced with g fanfare a decade or so ago, "resource covery" plants so far handle only a fraction of the 383,000 tons of w generated in the U.S. each day. To only 29 such plants are in operation built since 1970; 10 others have b closed down. The industry has b plagued by technical problems, p management and cost overruns.

Undismayed, Onondaga County, w a little help from big-city investm bankers, has come up with probably most sophisticated plan yet adopted local government for financing and o ating a garbage-to-energy plant. I works, the $90 million plant will cost county only $55 million—enough difference to alter, radically, the econ ics of garbage. If it doesn't work? county will be up to its ears in garba and in trouble.

Here's the proposition. Onon County would set up a public ben corporation to issue tax-exempt indu al revenue bonds. With that money county would hire a vendor—a cont tor experienced with large-scale reso recovery plants—to design, build and its waste-to-energy plant. Both the co ty and the vendor would take ple from equity investors, who would up $35 million when the plant is c pleted in 1984.



Disposing of garbage at one of Onondaga County's "waste transfer stations"

If you can sell the disposal services, the steam and the electricity, why not sell the tax benefits, too?

Economy you can feel comfortable with. The diesel Buicks.

EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
23	34	455	673	19.8

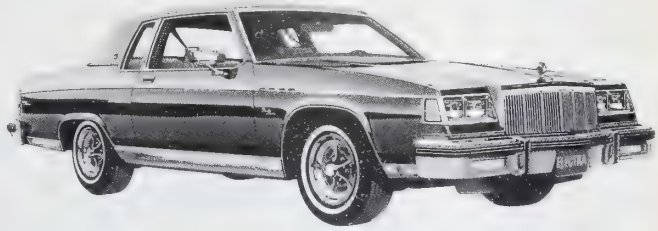
The diesel Century.

EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
23	34	455	673	19.8

The diesel Regal.

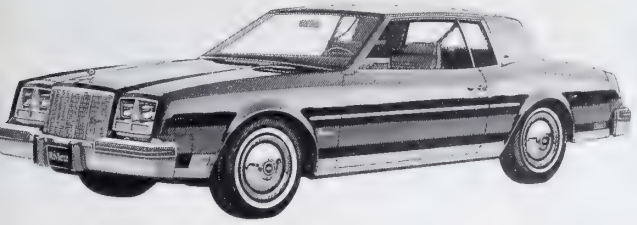
EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
22	34	594	918	27

The diesel LeSabre.



EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
21	33	567	891	27

The diesel Electra.



EPA Estimated MPG	Estimated Highway	Estimated Driving Range	Estimated Highway Range	Fuel Tank Capacity
20	30	456	684	22.8

The diesel Riviera.

Use the estimated MPG for comparisons. Your mileage and range may differ depending on speed, distance, weather. Actual highway mileage and range lower. Estimated driving and highway range obtained by multiplying mileage estimates by fuel tank capacity. Estimates and range lower in California. Buicks are equipped with GM-built engines supplied by various divisions. See your Buick dealer for details.

BUICK

GM
MARK OF EXCELLENCE

Wouldn't you really rather have a Buick?

On paper, there would seem to be something here for everyone. The vendor, of course, should profit from the construction work and, in addition, pocket a share of its revenues once the plant is up and running. The county would use the equity money to retire part of its debt, thereby greatly reducing its financing costs, and would, of course, have a place to take its garbage.

But the key to the deal, the part that promises to alter the economics of other such projects, is what's in it for the equity investors. In return for their $35 million, they would technically be buying a long-term lease on the plant, which they in turn would sublease back to the vendor. The practical effect is to transfer to the equity investors handsome tax benefits that have no value to a government agency. Leveraged leasing is old hat in the private sector. But, according to the county's bond counsel, Roswell C. Dikeman, a leading partner of Willkie Farr & Gallagher who helped create this arrangement, no one has ever used it before in a local-government-sponsored deal. Says he: "I feel like Henry Ford." What with liberal investment and energy tax credits plus depreciation, it is estimated that on their $35 million, equity investors could harvest tax savings of $27 million in the first year alone.

If all this were to work, William Thomas figures he could charge communities $13 or so to dump a ton of their garbage at the plant. With many towns now paying $19.50 a ton, that charge, or so-called tipping fee, would make the deal irresistible. Those who pay less are under pressure from the state to close their dumps. With an assured sour garbage as fuel, the plant would, if technology works, send 921 mil pounds of steam for heating and co to such customers as Syracuse Univ ty and area hospitals at a cost of $ per thousand pounds of heating stea $9 per thousand pounds from natura now. In addition, Niagara Mohawk er Corp. should get 49 million kw new electricity from resource reco cogeneration. The projected reve from electricity sales are $1.4 millio

Lawyer Dikeman
"I feel like Henry Ford."

That's the dream. But an awful lo go wrong. A marketable tipping fee a competitive energy price depend o uity support. Without it, if the co had to carry a $90 million burden a on industrial revenue bonds, Harry son of Smith Barney (which is helpi put the deal together) figures the co would have to charge a tipping fe perhaps $28 per ton.

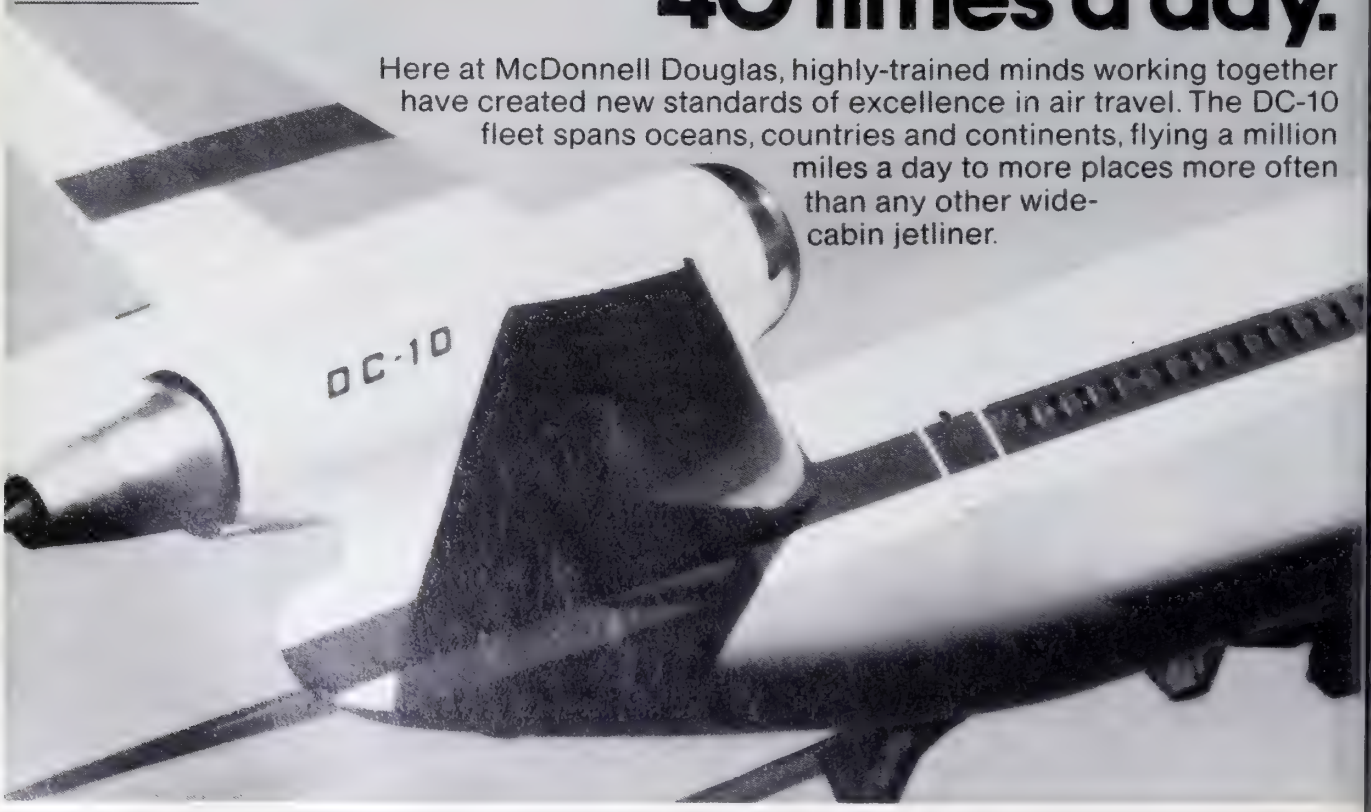
Will it work? The county is procee on the assumption that it will. companies, including Wheelabr Frye, Inc., Browning-Ferris Indus and Universal Oil Products, are expe to bid on the plant early next mo Director Thomas hopes to place the enue bonds early next year.

To some outside observers, how the deal is unnecessarily complex, haps hopelessly so. "It's like a handf jelly," says Charles Ballard, a mana

MINDS OVER MATTER

Planes that circle Earth 40 times a day.

Here at McDonnell Douglas, highly-trained minds working together have created new standards of excellence in air travel. The DC-10 fleet spans oceans, countries and continents, flying a million miles a day to more places more often than any other wide-cabin jetliner.



of Dillon Read & Co. and an
n both leveraged leasing and pub-
nce. "Once you start overlaying
with different objectives, instead
ets of lawyers, you probably have
A straight corporate leveraged
n take six months to arrange,
llard, with legal fees often up to
-six figures. Crank in a munici-
nd you pile complexity on com-
There are elections, changes in
encies, plenty of opportunity for
side from extra legal fees are the
apital costs. "Six months of delay
's inflation rates will add on $6
to a $100 million project," says

hose lovely tax advantages are no
ng. Tax credits require true pri-
nership, points out Robert Al-
consultant for Paine Webber.
"The IRS has taken the position
past that investment tax credits
taken for facilities used exclu-
r the public benefit." Since IRS
s to refuse to make advance rul-
ere is no way of knowing wheth-
ndaga County's garbage problem
ead to new policy.
is also the problem of owner-
nder its scheme, the county
se the residual value of the plant.
you give out a lease for tax bene-
ys Ballard, "the equity investor
own it. And the only way the county can get it back is to buy it at fair market value." In 25 years, when the lease is up, that could be considerably more than $90 million.

Few on Wall Street would argue the point that selling tax advantages is beneficial in financing a waste-energy plant. Some say, in fact, that it may be the key to making the process viable nationwide. But there are other, less complex ways to do it.

In Rochester, Mass., for example, local authorities have invited Energy Answers Corp. to build a 1,200-ton-per-day plant. The town will help issue the industrial revenue bonds—$80 million—and Bache, its investment banker, will raise equity funding. The difference, though, is that this will not be a leveraged lease. So Rochester is taking no risks. "No one is liable here but the general partner," says John Flandreau, a director of Bache Resource Recovery Associates, an arm of the investment bank.

Bache also is helping Pittsburgh-Allegheny Corp. for Energy Recovery finance a $222 million waste-energy project it is building for the city of Pittsburgh. There will be a $175 million industrial revenue issue and a $47 million equity investment by Browning-Ferris, the planned plant operator, and others. That will lower the debt.

One of the most successful waste-energy plants was financed similarly in Saugus, Mass. The town and Wheelabrator-Frye, the operator, sold $30 million in industrial revenue bonds and, on top of that, Wheelabrator and its partner, M. DeMatteo Construction Co., put in $25 million in equity of their own. "I don't need someone to sell the tax benefits," says Wheelabrator Chairman Michael Dingman. "I'll take them myself and write them into the price. The result is that our tipping fee is competitive with the damned dump."

Onondaga County officials, however, don't agree. The only way to make sure you get maximum benefit from those tax credits, they argue, is to sell them yourself. Straight equity partnership with the plant operator, they say, might not assure that. Nor can all companies afford so sizable an investment and many cannot make full use of the tax credits. Even if they can, say officials, the county could not be sure of getting the most for them. "We will go out and evaluate the worth of those credits and sell them for full value," says Jon Wooten of Smith Barney.

For that full value, Onondaga County is taking quite a risk. If it goes ahead and sells its bonds and the IRS later rules against it, it may wind up with a $28 tipping fee after all. But, if the IRS rules in its favor, little Onondaga County just might make financial and environmental history. ■

Stanadyne, a 100-year-old Connecticut company, has recently become a major GM supplier. But Paul Mongerson isn't ruffled. He just quit making horseshoe nails.

"Minding our business"

By Newcomb Stillwell

SHORTLY AFTER WORLD WAR II, Vernon Roosa spent most of his days in New York City's basements. His job: maintaining the giant diesel generators that produced electricity for many of the city's buildings. Smoky, smelly, dirty work.

Back then, only about 5% of the engines produced in the U.S.—the very largest—were diesels. Since oil was cheap, these expensive engines were economical only for monster machines that drank lakes of fuel. But Roosa had an idea. Diesels are more efficient than gasoline engines because they burn fuel more completely, spontaneously, at higher temperatures and pressures. They cost more because of the need for heavier parts and, a generation ago, because the delicate task of shooting the right amount of fuel needed for efficient spontaneous combustion required an injection pump for each cylinder. So Roosa designed a *single* pump that worked for all cylinders, cutting the cost of small-size diesels dramatically. He patented his "Roosa Master" rotary fuel-injection pump and waited to get rich.

Problem was, nobody believed it really worked, except Webster Corlett, president of the Standard Screw Co., a Hartford-based manufacturer of nuts, bolts, screws and cold-drawn steel. Corlett was looking for a product to build in plants idled by the war's end, and, well, Roosa reminded folks of founder Christopher Miner Spencer. He invented the Spencer repeating rifle, which gave Robert E. Lee fits, and the automatic screw-milling machine, which gave Standard its start in 1876. So Roosa went to work getting the bugs out. By 1961 just about half of America's farm tractors were diesel-powered, and nearly all of them had Roosa Master pumps. An American success story.

But only the first chapter, thanks to OPEC. With fuel efficiency at a premium, General Motors decided that 20% of its fleet would be diesel-powered by 1985, more by 1990. Two years ago it placed a massive order with Standard—now called Stanadyne after a name change in 1970.

Stanadyne's Paul Mongerson, with pumps
An American success story.

GM wanted 500,000 Roosa Master pumps or 50% of its annual requirement, whichever was less. The big automaker would build the rest in-house.

In 1979, however, prospects for U.S. auto producton weren't exactly rosy, and "whichever was less" looked like a lot less than 500,000. Stanadyne's other businesses weren't so hot either: Sluggish housing starts boded ill for products created by the company's other in-house genius, Al Moen, who invented the now ubiquitous single-handled faucet after burning his hands in a Seattle sink in 1937. Too, sluggish industrial production meant bad news for Stanadyne's fasteners, made-to-order engine components and machining steel. Cruelest of all, the expensive fuel that suddenly made Roosa's pumps so popular crunched Stanadyne's other big auto product, v lifters. Only half as many go into a cylinder engine as into the once-pop V8. Wall Street yawned, and rightl Stanadyne's 1980 sales fell 5%, to million, and earnings dropped 36% $13.4 million, or $2.80 per share.

Things have changed. GM quietly be known that it would buy all its pu outside, and Stanadyne posted a sur ing 37% earnings gain in the first qua Analysts began to whisper at lunc earnings near $6.50 in 1982. The pany's stock jumped from 30 to 40 matter of weeks. Even a reporter by—much to the anxiety of managem which has been press-shy since when the *Wall Street Journal* said s thing about the "Screw Trust" in menting on some mergers. "One o predecessors titled his history of the pany *Minding Our Business*," says C man Paul Mongerson, an Iowa-bred neer and a 35-year Stanadyne vet "We still think that's the best policy

Mongerson and his predeces moreover, have been minding their ness very well indeed. Stanadyne toc in fighting trim and poised—cons tively—for prosperity. To meet incr pump demand, a new $5 lion plant is abuilding in Bern, N.C. To help fund project and to free up addi al capacity, the com phased out an unprofi commodity-type fastener and sold off its mar Capewell division. marked the final confessi faith in autos: One Capewell's biggest lines horseshoe nails.

Things are looking so in fact, that Mongerson admit to goals of 10% growth each year and a return on equity. Ther problems, of course. To the threat of stricter poll standards for diesels, S dyne is developing a new electronic trol system for its injection pum joint project with Motorola. Then t the worry that GM, solid cust though it is, currently accounts for of sales. "We don't want to beco division, and we've set limits on we'll supply," says Mongerson. Fu protection is provided by a squ clean balance sheet, guarded by G Michel, chief financial officer and Mongerson, a former engineer.

Still, Stanadyne's future is brigh a few years anyway. The real que though, is, who is the next young dreaming in a New York City base or over a Seattle sink, or even, pe in a Hartford gun factory? "If I kn don't think I would tell you," says gerson, minding his business. ■

Forbes

SPECIAL ADVERTISING SUPPLEMENT

TOP 50 BUSINESS EQUIPMENT COMPANIES

Mainframes • Minicompute
munications • Microcompu

• Microcomputers • Word Proces
Software and Services • Periphe
Copiers • Mainframes • Minicom

Prepared by the Gartner Group, Inc.
Information Industry Consultants
Greenwich Connecticut
Under the direction of
Peter A. Wright

1980—A YEAR IN REVIEW

Based on the 20% growth in revenues to $51.4 billion for the DP 50 (See Table), users continued to spend money at an unprecedented rate during 1980. In light of the recession, this trend is even more remarkable.

Manufacturing leads all industries with 27% of total data processing revenues. Other important industry markets include government/education/medical at 15%; financial at 14%; retail and wholesale at 12% and OEMs (resellers) at 10%. Insurance, transportation, communications and the professional markets accounted for the remaining business. There have been marginal shifts in industry breakouts from 1979. The slowest growing industry has been the retail and wholesale business, which only increased dp expenditures by 13%. This slower than average growth is predictable, given the curtailed consumer spending during 1980. Government/education/medical also experienced lower than average growth in dp spending, up 15%. Here again, government budgets have tightened and these results are not surprising. The largest gains were made by the OEM markets, up 34%, and the professional and personal market, up 30%.

THE ELECTRONICS REVOLUTION

In a span of just two decades IBM's revenues have grown from 1960's $1.8 billion through $7.5 billion in 1970 to $26.2 billion in 1980. As a proxy for the data processing industry, IBM's growth clearly reflects an electronics revolution. When one considers that the DP 50 had revenues in excess of $50 billion, it is not unreasonable to assume that total spending exceeded $100 billion during 1980, when the billions of dollars spent by users to manage their computer facilitie are taken into account.

To expand upon the significance of these numbers, $100 billion represents approximately 4% of the GNP, and spending per capita now exceeds $450 (Back in 1970, user spending approximated $20 billion, or about 2% of the GNP, with spending per capita about $100).

But the electronics revolution is just beginning. The cynics might question how much growth can be left in an industry that accounts for 4% of total goods and services, considering that computers are nothing more than a densely packed set of switches that cannot themselves manufacture goods. However, we believe that computers and related technologies have only begun to impact our lifestyles, and that

AGGREGATE 1980 DP REVENUE INDUSTRY BREAKDOWN ($ IN MILLIONS)

INDUSTRY	1980 $	1980 %	1979 $	1979 %	GROWTH RATE %
1. Financial	$ 6888	13.8%	$ 5812	14.0%	18.5%
2. Insurance	3785	7.6	3063	7.4	23.6
3. Government/Education/Medical	7434	14.9	6482	15.6	14.7
4. Manufacturing	13493	27.0	11108	26.8	21.5
5. Retail & Wholesale	5840	11 7	5171	12.4	12.9
6. Transportation	2427	4.8	1980	4.8	22.6
7. Communications & Other Utilities	2866	5.7	2413	5.8	18.8
8. Professional & Personal	2407	4.8	1857	4.5	29.6
9. OEM	4830	9.7	3596	8.7	34.3
Total (44 Companies)	$49970	100.0%	$41482	100.0%	20.5%
% Top 50	97.1%		96.9%		
Top 50	$51439		$42801		20.2%

Source: Gartner Group, inc

'DPS 6 is mply too big an lea to be called minicomputer."

Hank Haugland, Director, Small Systems Marketing, Honeywell Information Systems

With DPS 6, Honeywell has set a standard for small business systems.

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Everything about DPS 6 says: Here are systems built for business."

DPS 6 also includes COBOL, transaction processing, d processing, data entry and communications. A pack- that experts are calling the best business-oriented soft- e available today. And it should be. Honeywell has been ing business solve tough problems for 25 years.

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"DPS 6 is designed to meet the business challenges of the 80s head-on."

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future volumes *will dwarf* current levels of user spending. With the changing nature of the computer business, with untapped markets of huge potential, and with newer and more sophisticated technologies that are continually improving the price/performance of computer hardware, it is not unreasonable to assume that this industry can achieve a real growth of 15%. This would put user spending at $400 billion by 1990 (in 1980 dollars). Assuming an average 10% inflation rate, nominal user spending might surpass $1 trillion by 1990! If GNP growth should average as much as 5% over the coming decade, a simple calculation shows that computer spending would then exceed 9% of the GNP by 1990!

IBM Dominance

The computer industry, although young by most standards, has had a dynamic history, which has traditionally been dominated by IBM. IBM remains the dominant supplier, although its revenue market share has declined from nearly 60% in 1970 to less than 40% in 1980. Its lower share today is attributable to the aggressiveness of other vendors and their success in focusing on the incredible diversity of market and product opportunities. Another factor is the growth of a more sophisticated user base, which is prepared to deal with multiple suppliers.

In an industry growing at such rates, there will emerge many billion-dollar companies over the next few years. An annual analysis of industry growth spotlights those companies that are breaking out of the pack.

While IBM's market share has declined, its influence, ironically, may have increased as a result of the remarkable infrastructure and technostructure which has grown around IBM standards. The most obvious examples are plug-compatible mainframe and peripheral suppliers such as Amdahl, National Semiconductor, Storage Technology and Memorex. However, many other vendors are compatible with other elements of the IBM environment, such as terminals and data base management systems. And most vendors now design their equipment to be compatible with IBM communications protocols while employing their own innovative architectures. Aggressive pricing, which results from direct competition with the IBM environment, creates more demand than can be satisfied by IBM alone. So despite IBM management's claim that it will become the low cost producer "box by box" and grow at least as fast as the industry, we cannot see its market share increasing as the rest of the industry maintains a growth rate close to 25% per year.

To understand why and how new markets will continue to be penetrated by a host of companies, one must first understand the changing nature of the computer business and our environmental assumptions for the 1980's. The computer business is evolving from almost a pure hardware business (wh

DATA PROCESSING TOP 50 ($ in MILLIONS)

COMPANY	DP REVENUES	1980 DP GROWTH RATE	COMPANY CLASSIFICATIONS
1 IBM Corporation	$21367.0	16.5%	1
2 NCR Corporation	2840.0	17.3	1
3 Control Data Corporation	2790.5	22.8	1
4 Digital Equipment Corp	2473.3	35.0	2
5 Sperry Corporation	2552.0	24.5	1
6 Burroughs	2478.0	1.5	1
7 Honeywell Inc.	1634.1	12.5	1
8 Hewlett Packard	1577.0	37.5	2
9 Xerox Corporation	770.0	35.1	3
10 Memorex Corporation	686.0	4.3	6
11 Wang Laboratories	681.8	66.1	4
12 Data General	672.8	24.7	2
13 Storage Technology Corp	603.5	25.9	6
14 Texas Instruments	562.0	41.2	2
15 Computer Sciences Corp	560.3	34.8	2
16 Automatic Data Processing	505.0	24.1	9
17 General Electric	475.0	21.2	9
18 Electronic Data Systems	408.5	31.1	9
19 Amdahl Corporation	394.4	31.7	1
20 TRW	376.8	32.7	6
21 Datapoint Corporation	364.0	33.7	2
22 Triumph Adler, Inc.	325.0	10.2	5
23 Management Assistance Inc.	310.4	12.7	2
24 Tektronix	286.4	38.4	5
25 McDonnell Douglas Corp	280.0	14.3	9
26 Mohawk Data Sciences	277.7	12.3	3
27 Prime Computer Inc	267.6	75.0	2
28 Harris Corp	260.0	23.8	2
29 Teletype Corporation	250.0	72.4	3
30 ITT Corporation	250.0	2.0	5
31 Dataproducts Corporation	248.3	43.8	6
32 National Semiconductor	245.0	6.5	1
33 Perkin-Elmer	226.0	31.0	2
34 Raytheon Company	225.0	28.6	6
35 Tandy Corporation	220.0	46.7	3
36 Northern Telecom Inc	217.1	26.0	6
37 Racal Electronics Ltd	212.0	39 6	7
38 Tymshare Inc	211.0	19.7	9
39 3M Company	205.0	28.1	10
40 Four-Phase Systems Inc	197.2	10.3	2
41 Computervision Corp	191.1	85.5	6
42 C. Itoh Electronics	189.0	22.7	5
43 System Development Corp	186.8	14.6	9
44 Motorola Inc	175.0	29.6	7
45 General Instrument Corp	172.0	15.2	9
46 Ampex Corporation	169.7	12.2	6
47 Apple Computer Inc	165.2	175.1	3
48 Bunker Ramo	146.7	8.0	6
49 Sanders Associates	145.0	208.5	8
50 Bradford National	142.7	18.8	9
Total	$51438.9	20.2%	

*COMPANY CLASSIFICATION	NUMBER OF COMPANIES	COMPANIES # IN AVAILABLE ESTIMATES
1 Mainframes	8	8
2 Minicomputers	11	11
3 Microcomputers	2	2
4 Word Processing	1	1
5 OEM Peripherals	7	6
6 End User Peripherals	7	4
7 Data Communications	2	1
8 CAD/CAM	2	2
9 Software & Services	9	9
10 Media	1	0
Total	50	44

Source: Gartner Group, ir

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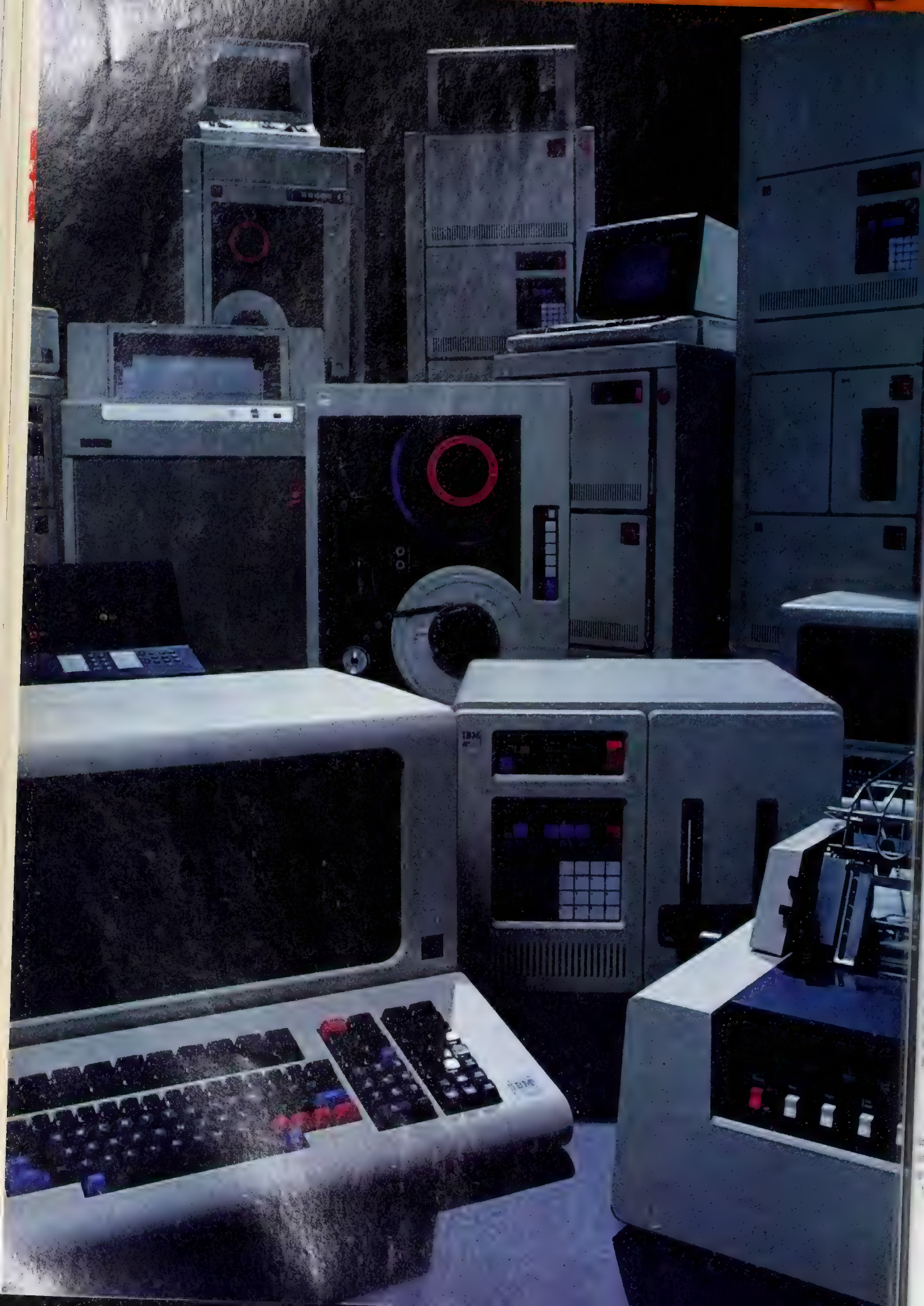
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cost of hardware was dominant with software bundled into the systems price) to a business more dominated by software and services as hardware costs (in particular the central processor) are declining at rates of 15% to 20% per year. This has two effects. First, the declining hardware prices stimulate demand, since labor costs continue to escalate. Second, the software and services, as they are priced higher, improve in quality and responsiveness to specific customer requirements.

Central Power Declining

In addition, the momentum towards distributive data processing is eroding the importance of the central site computer facility. Central site computer power will decline as a percentage of total computer power by about 5% per year throughout the decade, or by about 40% for the entire period. Communications is helping to accelerate this change as the adoption of digital technology in data communications occurs. Communications will also drive the rapid growth in office automation. By the end of the decade, electronic storage and retrieval will be cost-effective, as will electronic message services and teleconferencing. And finally, true integration of text and data processing at the very same terminal will be accomplished.

Yes, it is true that technology alone cannot provide useful solutions for the mass market unless human interfaces become more friendly. But intelligent terminals will simplify most man/machine interactions through prompting devices. In addition, high-level query languages will facilitate information retrieval by non-data processing personnel.

MAINFRAMES

The mainframe vendors, not surprisingly, are led by IBM, which generated 62% of the group's $34.3 billion total. Other vendors include NCR, Control Data, Sperry, Burroughs, Honeywell, Amdahl and National Semiconductor.

The group's relatively lackluster performance (revenues up 15.8% and without IBM up 14.7%) reflects its continued loss of market share, experienced throughout the decade. However, with two-thirds of the DP 50 revenue, the group still remains the dominant industry factor.

Yet these companies, particularly IBM, are much more than manufacturers of mainframe computers. Not surprisingly, IBM is active in all facets of the computer business. For example, its minicomputer division, General Systems Division, would be ranked as the sixth largest dp company and the second largest (to Digital Equipment) minicomputer vendor. With the unbundling of software from its 4300 series of computers, IBM with its $1.3 billion in software revenues captured at least 75% of the DP 50 software revenues. And although IBM's entry into word processing and microcomputers has been late, its presence in both of these fields will be felt as we progress throughout the decade. Indeed, IBM has many coals in the fire, and while some may burn out, the products that succeed will probably make it overly hot for some of the competition.

The other mainframe firms are also diversifying into the higher growth rate sector of the industry, using various strategies. Honeywell may have been the most successful, with minicomputer now accounting for as much as 30% of revenues. Burroughs continues to reorganize in an effort to bring cohesion to its office products operation. And Amdahl has diversified into telecommunication by acquiring Tran.

MINICOMPUTERS

Minicomputer firms placed more companies in the DP 50 than any other sector. Eleven minicomputer companies accounted for $7.5 billion in revenues during 1980, up an incredible 33% during a so-called recession year. Their growth has averaged more than 30% over the past ten years and was widespread across the entire spectrum of us industries. Expansion, both up and down their product lines, and increased manufacturing capacity, helped these companies realize their potential for yet another year.

The leading vendors were once again Digital Equipment, with sales of $2743 million, Hewlett-Packard with

ESTIMATED 1980 DP REVENUES
MAINFRAME COMPANIES—8 IN TOP 50
(8 ESTIMATES)
($ IN MILLIONS)

INDUSTRY	$	%
1. Financial	$ 5419	15.8%
2. Insurance	3085	9.0
3. Government/Education/Medical	4784	13.9
4. Manufacturing	10159	29.6
5. Retail & Wholesale	5054	14.7
6. Transportation	1705	5.0
7. Communications & Other Utilities	2185	6.4
8. Professional & Personal	885	2.6
9. OEM	1025	3.0
Total	$34301	100.0%
% DP 44	68.9%	
Total Revenues in Sector	$34301	
% DP 50	66.7%	

Source: Gartner Group, in

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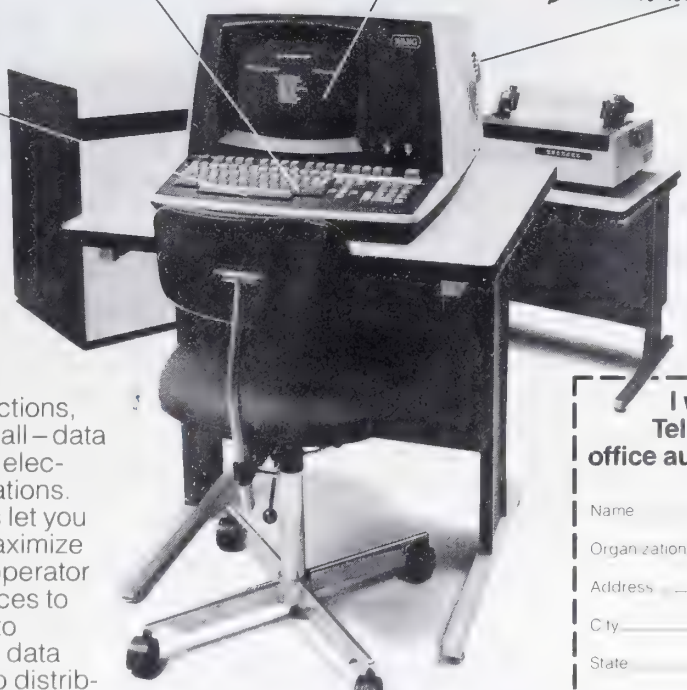

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Choose the VS if data process- g is the main thrust of your office utomation plans. Or a Wang Office Information System if word processing is your primary need. Either way, you won't find a comparable system anywhere with this much integrated capability and this much simplicity at the workstation level.

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You see, people like engineers, analysts, researchers, etc., don't deal just with words or numbers or graphics. They deal with ideas.

The Star System lets them create, revise, and visualize their ideas on a screen, before anything is committed to paper.

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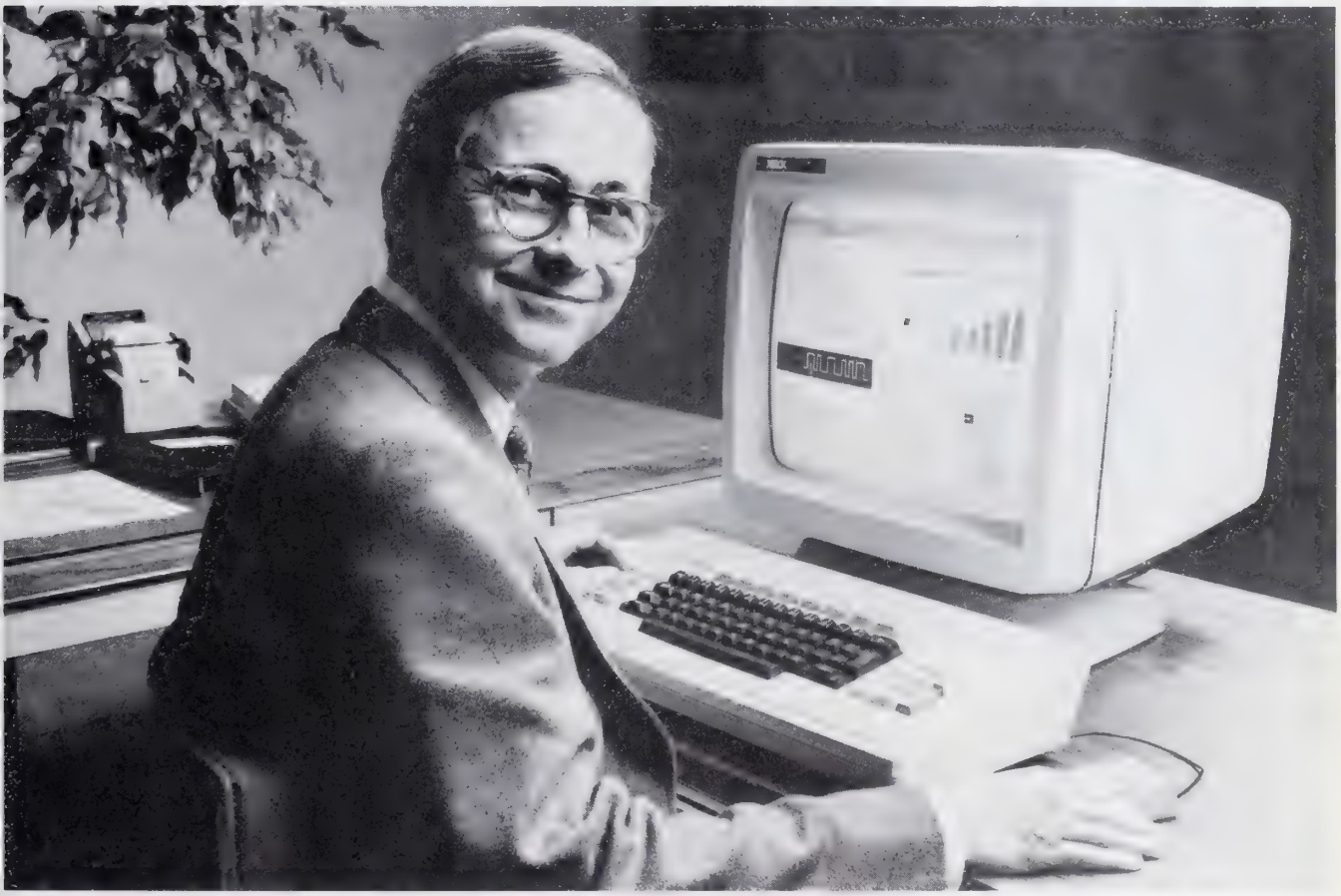

doing tedious jobs, or waiting for outside help. And more time doing the productive work there never seems to be enough time to do.

"But I can't type."

Because Star was designed for professionals, it requires no previous experience with keyboards or display screens. What they work with on the screen are symbols of what they work with every day (such as a file drawer or an in/out box). So most people can become familiar with it in just a few minutes.

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XEROX

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sales of $1577 million and Data General with sales of $673 million. Together these three companies accounted for two-thirds of the total for all 11 vendors.

The distinctions are blurring between mainframes and minicomputers and, for that matter, minicomputers and microcomputers. Back in 1970, there were clear product line distinctions, but today's minicomputers offer substantially more power than the mainframes of yesteryear. And at the very low end, minicomputer suppliers utilize the same microprocessors that are used by microcomputer vendors. The distinctions used for this survey are based on the average systems price. Vendors are arbitrarily cited as minicomputer manufacturers if the predominant dp activity is in selling systems, and if the average system ranges in price from $15,000 to $250,000. With the power and architecture of small systems overlapping what some may define as traditional mainframes, it is not surprising to find that the application spectrum using minis has become exceedingly broad.

MICROCOMPUTERS

Revenue growth continued at a blistering pace, with worldwide end user sales of $1.3 billion in 1980—more than five times the 1978 level. Once considered a fad market for the computer hobbyist, the business market now accounts for 60% of this subsector's revenues. Just as the so-called experts laughed at the prospects for minicomputers in the early 70's, they now question the extent to which microcomputers (defined as configured systems for under $15,000) will invade the ranks of the major dp user groups. Even this notion is already becoming obsolete, as users in certain industries, particularly finance, education, retail and professionals, are already becoming major buyers. The revolution in microcomputers is only limited by the amount of applications programming available.

The keys to success in this market segment are distribution and marketing. The two companies in the DP 50 classified as microcomputer vendors are Tandy Corporation and Apple Computer, both of which are strong marketeers. Other important vendors include Commodore International, Atari, Zenith Data Systems and Cromemco. Among the DP 50, there are many other vendors that have developed, or are developing, products to address this market. They include Hewlett-Packard, Texas Instruments, IBM, Xerox and Data General. No doubt as the realities of the market become more apparent, more vendors will vie for share. Currently there are close to 100 companies manufacturing microcomputers; these include several aggressive Japanese vendors, for example NEC, Sharp, Canon, Mitsushita, Casio, Sord Computer, Hitachi, and Oki Electric.

This subsector is revolutionizing traditional business practices. Direct sales and servicing is too expensive for systems selling under $15,000; instead, new distribution channels have developed, such as independent retail stores, mass merchandisers and office equipment dealers. These outlets may serve as the basis of a trend for the marketing of more expensive systems.

WORD PROCESSING

Although Wang alone among the DP 50 has been classified as a word processing company, this sub-sector is experiencing rapid growth. Smaller companies that are participating in the growth of word processing include Lanier, CPT, Vydec (a subsidiary of Exxon Enterprises), Micom, NBI, and others. Sales for the segment approached $1 billion in 1980, up 56% from 1979. Obviously, many of the other top 50 companies provide equipment and services in the word processing field, or in more advanced "office automation" applications. Although growth may slow somewhat this industry subsector should nevertheless grow in excess of 30% over the next several years.

The momentum for word processing comes from the improved office productivity it achieves. Wang is by far the leader, not only in terms of shipments but also with regard to applying innovative technologies to the office. In the past, hardware has been sold piecemeal into the office. The office of the future

ESTIMATED 1980 DP REVENUES MINICOMPUTER COMPANIES—11 IN TOP 50 (11 ESTIMATES) ($ IN MILLIONS)

INDUSTRY	$	%
1. Financial	$ 305	4.1%
2. Insurance	90	2.5
3. Government/Education/Medical	1239	16.6
4. Manufacturing	1876	25.2
5. Retail & Wholesale	253	3.4
6. Transportation	321	4.3
7. Communications & Other Utilities	305	4.1
8. Professional & Personal	1090	14.6
9. OEM	1879	25.2
Total	$ 7458	100.0%
% DP 44	15.0%	
Total Revenues in Sector	$ 7458	
% DP 50	14.5%	

Source: Gartner Group, i

HARRIS technology on the job

HARRIS 1680 distributed data processing system at General Foods

n information systems, Harris Corporation produces data processing terminals, general-purpose computers, word processing systems and supervisory control systems. Multi-function distributed data processing systems from Harris Corporation provide remote access to central computers *plus* on-site computing power, helping business and government handle growing data processing workloads. HARRIS technology works worldwide—in communication equipment, information systems, government systems, semiconductors and printing equipment. For information, write: Harris Corporation, Melbourne, Florida 32919.

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CEO's GUIDE

ELECTRONIC MAIL VIA OFFICE COPIER

An interesting development using office copiers will be in the printed reproduction of electronically generated messages. Data terminals routinely receive messages, reports and graphics which are displayed on their video type cathode ray tubes (CRT's). If the terminal operator wishes a printout of the information which appears on the CRT, he can have it printed locally at the terminal (if the terminal is so equipped) or it can be printed remotely — where more elaborate printers are available. Quite often, the quality of the local printout is marginal and the delay in receiving a remote printout can decrease its usefulness. In either case, the printout of graphics is often degraded because the mechanical means commonly used in most computer printing limits the resolution desirable for graphics. This new development unites the digital information of the data terminal to the reproduction capabilities of the copier in a manner more efficient than the scanning technique used in facsimile. Frames of information which are transmitted from the image processor (computer) and appear on the data terminal CRT can be automatically routed to the system's copier. Thus, graphics can be reproduced on the copier with a quality comparable to — or even better than — the resolution of the CRT video screen.

The prosaic role of the office copier will soon be enhanced by its combination with many types of communications equipment — adding greater flexibility to the office as an electronic mail station.

will be integrated, with sophisticated communications between all hardware including word processors and other "black" boxes. The communications glue for office applications will include both the PABX and local networks, such as Xerox's Ethernet.

We expect word processing to become increasingly competitive, which in turn may tend to erode the high profit margins currently enjoyed by some of the leading vendors. In particular, IBM and Xerox loom as very strong competitors. In addition, companies like Datapoint, Harris Corporation, and Digital Equipment may impact this market.

DATA COMMUNICATIONS

Only two companies in the DP 50, Racal Electronics and Motorola, were classified as data communication firms. However, smaller data communications vendors, including Paradyne and General DataComm, are listed in the data processing ranks, and many larger companies classified under other subsectors also manufacture data communications equipment. Whereas the two companies had revenues of $387 million, the total communications revenues from the DP 50 exceeded $1 billion, and these revenues still do not include data communications products sold with mainframes and minicomputer systems at the time of the initial installation. Most telling, perhaps, is that more and more computer hardware is being sold in a communications *environment*.

Growth in data communications products could average 25% or more in the 80's. Propelling this demand is the continuing trend towards distributed data processing, new applications for on-line transaction processing, and new technologies in telecommunications which will make new applications cost effective. Examples are electronic mail, electronic filing, electronic conferencing as well as other office integration functions.

Data communications was defined to include modems, multiplexers, network diagnostic equipment, data communication switches and front end processors. Excluded were communication services and telecommunications gear (including PABX's, satellites, antennas, dishes).

Data communications equipment is used across almost all industry sectors. For example, the financial industry, which includes banks and brokerage houses, is a significant user of data communications gear for money transfer, on-line transaction processing and on-line read-only data inquiry (for applications requiring real time such as stock quotes and currency rates). Transportation might range as high as 20% f the entire industry. On-line transaction processing is used by the airline indust for reservations and seat selection, by the car rental industry for reservations, and by the trucking industry for bill of lading analysis, equipment allocation analysis, and least-cost routing.

SOFTWARE AND SERVICE

By any measure, software and service is one of the most important sectors in the DP industry. Nine companies (Computer Sciences; ADP; General Electric; Electronic Data Systems; McDonnell Douglas; Tymshare; System Development Corporation; General Instrument; and Bradford National) have been classified in this sector, and their combined revenues exceeded $2.9 billion, up 24% from 1979. Still, practically every company in the DP 50 provides software and service, and the combined software and service revenue of all 50 companies reached $6.8 billion Expanding this definition to include maintenance, software and service, revenues reached $15.4 billion in 1980, 30% of the total for the DP 50.

Service and maintenance revenues have grown at a steady 20% over the past few years. However, software sale are experiencing an unprecedented boom, helped in part by the unbundlin of software from hardware prices by IBM. We estimate packaged software sales at $1.6 billion in 1980, up 29% fro 1979, and a similar growth is expected occur over the next five years. Custom software, which is classified as service, approached an additional billion in 198

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Programming Supply/Demand Gap

The changing nature of data processing will allow software and services to exert increasing influence on the industry by vastly expanding the application base and the reliance on specialists. The supply/demand gap for programmers is widening and will have a profound effect for users experiencing personnel shortages. To alleviate some of the problems, software productivity will improve as new tools are widely developed. Eventually, software applications will be developed without using conventional programming. However, users should anticipate that in-house software development will eventually exceed hardware costs.

Among the higher growth areas for software and service are small business and home computing. These areas are embryonic with regard to meaningful software, and users can expect massive software applications to be forthcoming over the next five years. Industrial applications represent another high growth area, considering the low penetration that still exists in the manufacturing plant. Computer graphics, robotics and integrated manufacturing are clear target application markets. Other high growth markets for software and service will be in communications, particularly in the forthcoming "office of the future"; energy management; and health care.

The government is currently the largest user of software and services, and this trend is likely to continue. Major users include such Departments as Defense, Agriculture, HEW, and HUD, and such agencies as GSA, IRS, NASA, and the FBI. However, federal purchasers as well as their commercial counterparts are likely to be changing their buying habits. High costs will motivate them toward acquiring special purpose computers with internally-developed custom software.

The industry breakdown is based on the nine dedicated companies which represent approximately 40% of the total for software and services (excluding maintenance) and is probably a good representation for the entire industry. Government with 32% leads all industries with finance (19%), manufacturing (15%), and retail and wholesale (11%), and insurance (9%) close behind.

PERIPHERALS

Periperal devices are rapidly becoming the largest portion of data processing systems cost. The technology curve for the central processing unit (CPU) is much steeper than for peripheral devices. This is because of the electronic nature of the CPU compared with the largely mechanical nature of the peripherals. Also, as the CPU engines become more powerful, they can drive more I/O devices. Thus, the percentage of I/O boxes to CPU's is growing, increasing the relative importance of peripherals still more.

Fourteen of the DP 50 companies are classified as peripheral suppliers. In 1980, they accounted for revenues of $4.7 billion, up 20%. These companies,

ESTIMATED 1980 DP REVENUES CAD/CAM COMPANIES—2 IN TOP 50 (2 ESTIMATES) ($ IN MILLIONS)

INDUSTRY	$	%
1. Financial	$ 0	0.0%
2. Insurance	0	0.0
3. Government/Education/Medical	39	11.6
4. Manufacturing	263	78.4
5. Retail & Wholesale	0	0.0
6. Transportation	10	3.0
7. Communications & Other Utilities	12	3.5
8. Professional & Personal	12	3.5
9. OEM	0	0.0
Total	$ 336	100.0%
% DP 44	0.7%	
Total Revenues in Sector	$ 3366	
% DP 50	0.7%	

Source: Gartner Group, in

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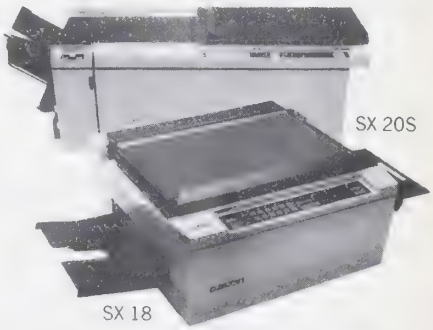

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however, only begin to tell the story. The DP 50 in total generated $10.2 billion in peripherals (which *still* excludes I/O gear sold with the initial installation). Assuming that peripheral revenues were a conservative 50% of installations for mainframe, minicomputer, microcomputer and word processing systems, perhaps yet another $12.1 billion can be added to this subsector. The total of $22.3 billion is 43% of the all DP 50 revenues.

In looking at the industry breakouts, one must separate peripheral vendors into two classes—OEMs and end-users. OEMs market their products to other computer companies and small distributors who in turn sell to the end-user. End-user peripheral vendors market directly to end-users. While OEM vendors generally participate in the general growth of the computer industry, end-user vendors frequently save customers money by offering them alternatives to their major suppliers, most often IBM.

Varying Growth Picture

A general statement about the outlook for peripheral devices would be misleading. The equipment group is comprised of several components, each characteristically having separate demand functions and pricing curves. Large disk drive demand, as measured by megabytes of storage, is projected to grow at almost 50% for the next five years. However, new disk technologies are likely to result in lower prices at the rate of 15-20% per year (as measured by $/megabytes) which would result in revenue gains of roughly 25-30% per year. Large tape drive demand is considerably lower, perhaps 15-20% per year. New technologies which will lower prices may accelerate demand somewhat, but not enough to offset the learning curve; therefore, 15% growth seems like a reasonable ceiling.

Small tape and disk drives, those predominantly sold by OEMs, are experiencing unprecedented demand resulting from both the explosion of low-end systems and, especially, improved price-performance. Revenues in this sector could average 30% over the next five years.

Printers, particularly at the low end, should grow in units at almost 40% per year. But here again, technology gains, (apart from competitive factors, chiefly from the aggressive Japanese vendors) could cause price declines. The upshot would still be handsome revenues gains approaching 30%, but with possibly reduced profitability.

CAD/CAM

Computer-aided design/computer-aided manufacturing (CAD/CAM) is one of the hot new computer application categories. Justified by users because of the large productivity gains (up to 20:1 for some applications) and therefore excellent return on investments (ROI), this business grew an incredible 70% in 1980 to an estimated $510 million. In addition to improved productivity, CAD/CAM systems provide users other indirect benefits, better predictability of the design process, and improved integration with manufacturing.

Although $510 million does not seem like a large market compared to the $51.4 billion estimated for the DP 50, CAD/CAM revenues probably approach a more significant total of $2 billion when peripherals (including graphic displays, plotters, digitizers, etc.), and software and services, and non-dedicated mainframes and minicomputers are added to the total.

Vendors Emerging

Only two companies in the DP 50, Computervision and Sanders Associates, have been officially listed as CAD/CAM vendors. Computervision is the leading turnkey systems vendor, with a 37% market share, while Sanders is predominantly a peripherals supplier to this marketplace. Other important vendors, not yet large enough to make the DP 50, include Gerber Scientific, Applicon, Intergraph, Auto-trol Technology, Manufacturing Data Systems, Summagraphics, and Evans and Sutherland. In addition, General Electric, which is listed as a software and service vendor, plays an important role through its Calma subsidiary. Many others within the DP 50 are also important contributors to this market, including IBM, Control Data, Hewlett-Packard, Tektronix, and McDonnell Douglas.

Although applications at present ar widespread, the industry was spawned by design applications needs for the electronic industry. CAD/CAM systems are used to design integrated circuits (IC's) and printed circuit boards (PCB's). As the industry matured, new applications developed for mechanical designs, which now account for approximately 40% of total systems. The development of three-dimensional graphics helped to propel these mechanical applications. Tl largest users are the aerospace and auto motive industries, which first saw the economic and competitive advantages of implementing graphic systems to shorten design cycles. The machine tool industry is also active in integrating graphic systems to their products.

Other major applications include architectural and engineering (A&E) an mapping. A&E is highly labor intensive and CAD systems are used to eliminate repetitive drafting. These applications are used across several industries, with petroleum, chemical, utility and architectural companies heading the list. Mapping is a relatively new application but one with strong potential. CAD systems not only can display maps, but can be used to model in an interactive mode. Geologists use computergraphics to help identify optimal hydrocarbon formations. Government agencies use mapping for military navigation as well as property tax planning. A final applic tion, simulation and training, is used by a variety of industries, although the government (particularly the armed forces) and aerospace companies, have been the largest users.

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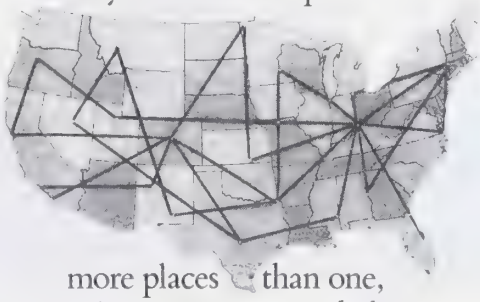

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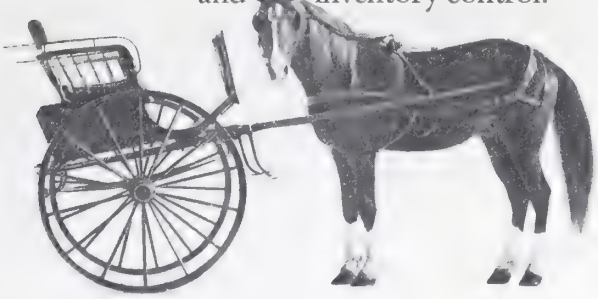

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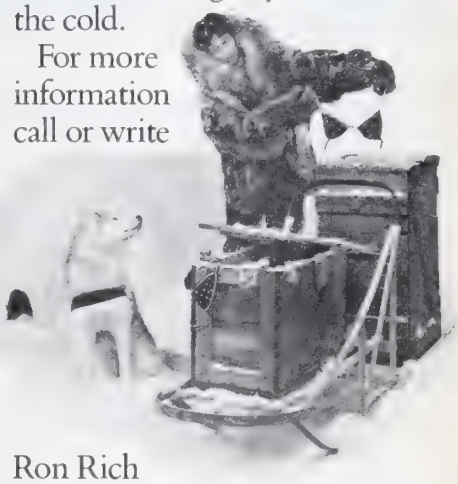

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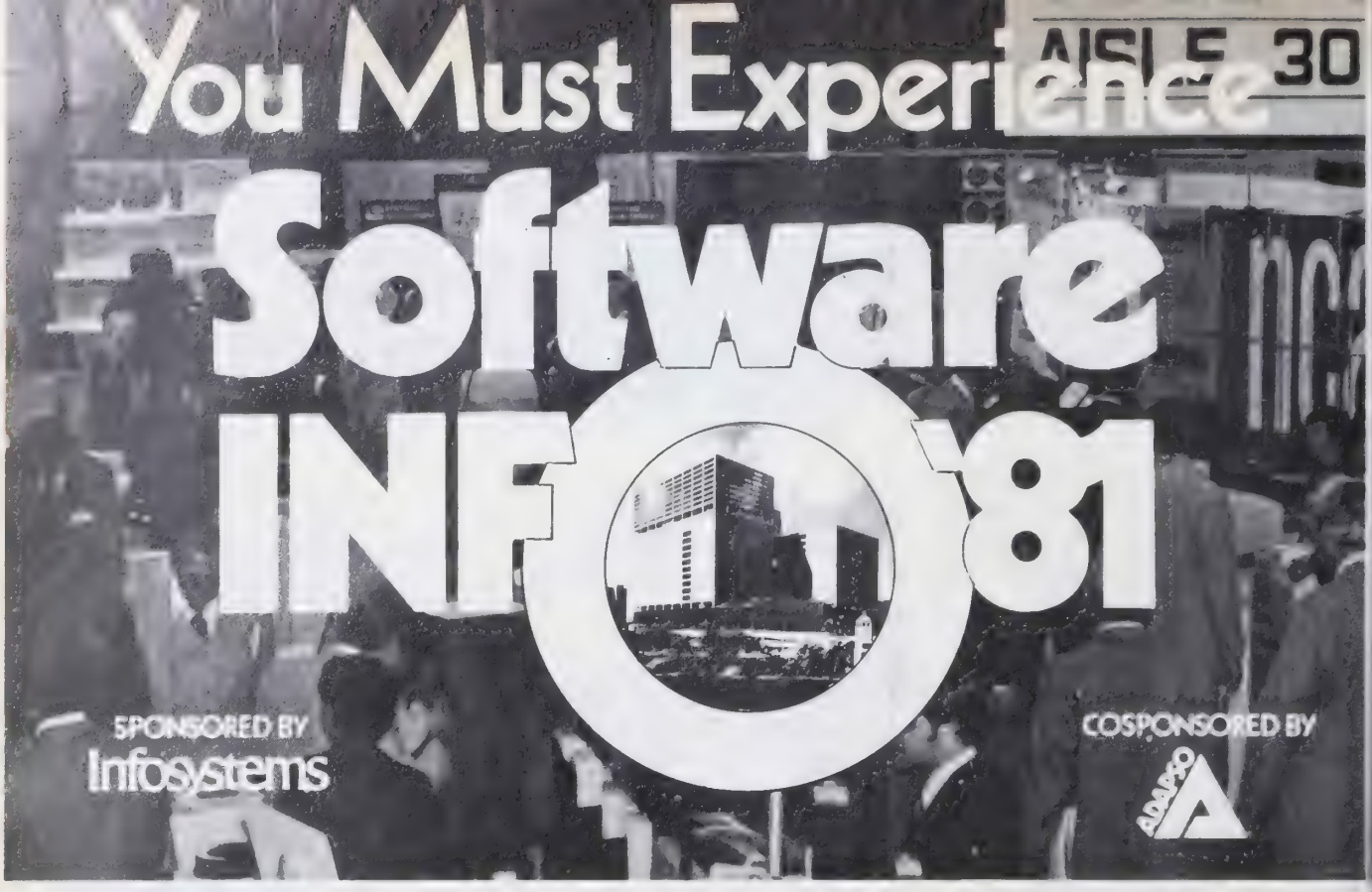

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e home taping revolution has knocked record sales out of the owth groove. Help from new technology or new laws is unlikely. y not offer better quality higher-fidelity cassettes?

Fast forward

ging the beat in New York's Washington Square Park

ords are going to be like hardcover books and cassettes like paperbacks."

By Jonathan Greenberg

JESSICA EPSTEIN WAS every record executive's dream. When punk rocker Patti Smith hit the market, Jessica, a 21-year-old student from Brooklyn, donned a black leather jacket and bought every one of her albums. When Talking Heads blasted onto the New Wave scene, Jessica eagerly awaited each new release and "pogoed" to their music at parties. She snapped up products by such new artists as the Contortions and Pere Ubu. Six records a month this young music enthusiast bought, spending about $400 a year.

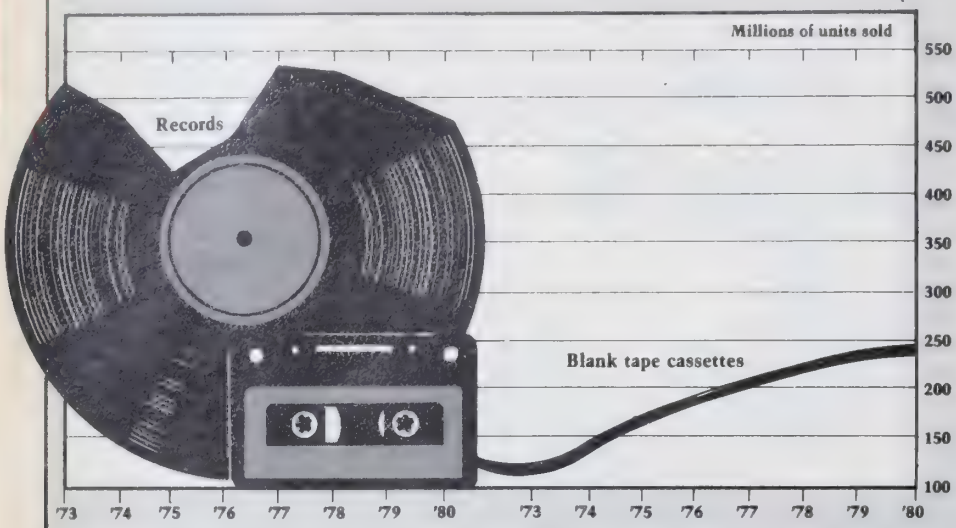
Then something happened. "I was living with a friend and she taped all my albums," Jessica remembers. "I thought, 'Wow, it's really great she can do that.' " Jessica thought some more and bought a $200 cassette deck that attaches to her stereo. Now, she borrows albums from friends for home taping. "I don't notice any difference in sound quality," she said. She does notice a rather large difference in costs. For $3 she can record two entire albums on a premium-quality cassette. Her record expenditures are down to just $60 a year—but she buys $80 worth of blank recording tape.

Rock fans, however, are only part of the tape craze. Sony's Walkman, a 14-ounce portable tape player with stereo headphones, retails for $150 and is *must* wearing for joggers, skaters and jet-setters from New York to Los Angeles. Sales, including competitors' models, should top 1 million units this year. A less expensive Walkman—bound to catch on with teenagers—will hit the market soon. Meanwhile, car stereo cassette installations are growing by 30% annually, and demand for high-quality tape deck components is on the rise while turntable sales are falling.

It's easy to see why. Taping music from a phonograph or the radio for personal use isn't against the law, and today's technology makes it cheaper—and

Discs slip; tapes rip

Something is amiss in musicland. After reaching a high of 534 million units in 1977, record sales have steadily wound down. Demand for blank tape cassettes, not coincidentally, has more than doubled since 1973.



Source: Recording Industry Association of America, Predicasts, Audits & Surveys, Forbes estimates

in most cases more convenient—than buying a record. Two $8.98 albums fit on a single $3 cassette that is easier to store and will never crack or scratch. Also, a battery-powered Walkman-like player is not much bigger than a cigarette pack and goes anywhere. "Records are going to be like hardcover books and cassettes will be like paperbacks," predicts one music industry executive.

The people who make blank tape, of course, have been riding this wave for the past decade. Domestic sales to distributors now amount to $300 million annually—3 times the 1973 level. Memorex and Minnesota Mining's Scotch division lead the pack in dollar volume and unit sales. Close behind are two Japanese companies, TDK and Maxell, a subsidiary of Hitachi. Both had only a minor share of the market until a few years ago when they began advertising heavily. Now each has about $40 million in annual revenues from the U.S. Sony, Signal Co.'s Ampex, BASF, Fuji and others also sell blank tape.

Selling blank tape is a cutthroat commodity business—and one that promises steady, if hardly superior, profits. But the tape boom is already eroding unit sales in the $3.7 billion recorded music industry. Unit sales, which include 99 million prerecorded cassettes, have decreased for the second straight year, from 726 million in 1978 to 649 million last year. Experts estimate that perhaps $700 million in record revenues was lost last year to home taping. At the moment, the sound quality of a home-recorded blank cassette is often superior to a prerecorded product, which is made on low-grade ferric oxide-coated tape instead of refined ferric oxide or even chromium dioxide, which allow higher frequencies and greater audio levels. And the price difference is considerable: a purchase price of $3 to $4 for a top-quality 90-minute blank tape *vs.* $14 for two $8.98 list-price albums.

Unless record companies can reverse that trend, sales will continue slipping. At the moment, however, industry e ecutives see four potential solutions.

The first and simplest is to bet on t laziness of the American consumer. Sa CBS Records' Division President Bru Lundvall, "Many people don't have t time or inclination to tape at home after a period of time they won't cont ue to do it."

Other record moguls want a lobbyi campaign for legislation to place a s charge on all tapes or recording equ ment, similar to regulations that no exist in Germany. These funds wou then be divided among record comp nies, publishers and artists. Fat chance getting that through Congress.

Another possibility is a high-tech yet to be invented. It would involve ther an encoding system placed on corders to prevent direct taping from t radio or a new electronic device th would prevent musical reproducti Some experts believe the latter syst will be perfected within the next t years. "They've been talking about t for ages and have never been able to it," says an electronics engineer.

A few record companies have tried meet the challenge of home taping, a the results are encouraging. In Lond Island Records, for example, sent tre ors through the British music industr few months ago with the introduction its controversial One Plus One tap They offer a premium-quality chromi tape with one 40-minute side containi a prerecorded album and the other l

"One Plus One" equals trouble

Island Records is a $20 million-a-year company based in the Bahamas that is giving fits to its normally laid-back competitors. Island's new One Plus One cassettes are half prerecorded music and half blank—an encouragement to home taping that is heresy in the record business. Still, Chris Blackwell, the Jamaican entrepreneur who founded the company and introduced reggae music to the world, hardly seems to be puffing Rastafarian marijuana. "People are turning off to records . . . tape players outsell phonographs in England 4 to 1," he explains. "The problem is that companies sell their cassettes for the same price as records, when clearly they don't have the same value."

Blackwell sees his innovative One Plus One, which is available now only in England, as an incentive to get home tapers to buy prerecorded product. But the trade association of the $2 billion-a-year British record industry, which claims $500 million was lost to home taping last year, objects strongly. It recently issued a statement complaining that "home taping is gradually killing the music industry, and it is particularly unfortunate that Island should embark on its venture at this time." A boycott attempt failed, and One Plus One is now a hot seller—at a price well below shorter, inferior quality prerecorded tapes.

So far this has caused only a ripple on the American scene. But the waves should come soon, since Blackwell wants to bring One Plus One here. In the U.S., Warner Communications distributes Island's label, which includes such artists as Bob Marley and Steve Winwood. But the company opposes the new unconventional tapes. Says Stan Cornyn, who heads Warner's record operations, "We endorse Blackwell's belief that blank taping should be discouraged, but we cannot endorse the means he is using."

Cornyn, however, admits he's monitoring Island's British sales, and if buyers keep snapping up One Plus One you can bet that one way or another it will be available in the U.S. soon.—**J.G.**

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blank for home taping. "Record companies grudgingly manufacture blank tapes as if they were by-products. Trying to ignore home taping is like burying your head in the sand," says Chris Blackwell, who founded the small private company 21 years ago. "The best way to encourage people to buy more prerecorded music and steer them away from blank tape is to give them blank tape."

That may sound bizarre, but Blackwell, a Jamaican whose company introduced reggae music to the world, claims Island's sales are up 500% in the months since he launched One Plus One. His initiative also reveals much about the economics of upgrading tape quality. The manufacturing cost of a typical prerecorded cassette—tape, cartridge, casing and graphics—comes to about 65 cents, *vs.* 75 cents for a recorded disc. Both can list for $8.98. Island's improvements add only 20 cents per cassette.

In the U.S. another small independent company has begun to sell inexpensive chromium cassettes. New York's Inner City Records has converted 50 jazz LPs onto high-quality tape with foldout liner notes. They sell for about $1 higher t standard prerecorded tapes. Though ner City launched its tapes just this y they now make up 20% of sales.

Soon the giants of the industry probably begin manufacturing sim cassettes. CBS and RCA already h premium lines as good as Inner Ci but both charge $15 for each tape. that price they will scarcely lure m people from home taping.

Record executives who expect competition to fade may suffer fro lingering case of Saturday night feve

From what tiny acorns do mighty businesses grow? Consider the Texas film industry.

Hollywood, look out!

By Toni Mack

TALK ABOUT COMPARATIVE ad tage. A movie can be shot in T for 25% less than one would in Los Angeles or New York; the ave 30-second TV commercial costs $20 to tape, half the price on either c "You get a lot on the screen at a good price," says one filmmaker.

With Dallas in the lead, Texas ha come the largest regional film cent the U.S. Last year the state played to 23 feature and television movie ductions with a total budget of $110 lion and the Texan filmmakers mad additional $100 million worth of c mercials and industrial films. Sure, C fornia has little to fear—570 films w $2.5 billion were made in moviede capital last year. But Texas' 23-film,

Producer Joe Camp with Benji memorabilia

Dallas, not Hollywood, was where it happened for him.

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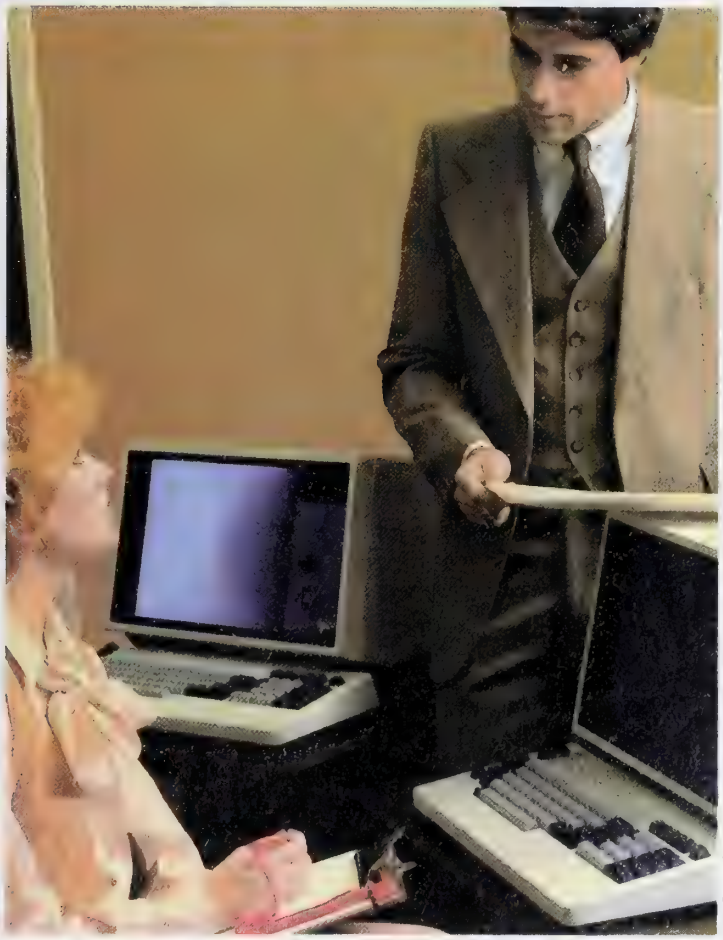

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million total was up from 16 films and $58 million in 1979.

Dallas builder Trammell Crow is putting up a $30 million, 25-acre film and videotape production center with three sound stages and buildings for production equipment and offices. "You'll be able to come with an idea and leave with a product," says Trammell Crow Jr., who heads the project. "Obviously, it was the strength of the local industry that made us do it." If phase one succeeds, the Crows plan to expand to 120 acres, investing some $200 million.

Oil money? Not really. Developments dating to the mid-Sixties lie behind the boom. Radio entrepreneur Gordon McLendon made Dallas a center for jingle producers, which drew musicians; the Dallas Apparel Mart, opened in 1964 and now the nation's third-largest fashion market, lured photographers and models *(see story, below)*; local advertising agencies grew up with Texas industry and fostered commercial and industrial film production—all of which formed a strong media base for show business. At the same time, Los Angeles-based filmmakers, working on location in Texas, gave the locals a chance to learn Hollywood's skills.

Why were Los Angeles' filmmakers coming to Texas? Ask a producer and he'll talk at length about location, crews, weather and local cooperation before, almost reluctantly, mentioning the real reason: "It's a right-to-work state, you know. The unions are so very reasonable."

In Los Angeles and New York—the second most important film center—the Screen Actors Guild, the International Alliance of Theatrical Stage Employees, other craft unions and the Teamsters enforce some of the world's most incredible featherbedding. "If you need a socket plugged in," says a producer, "and all the electricians are down in the South 40, you've got to call one in to do it—even if you've got a grip just sitting there. The grip won't do it, and the electrician would scream if he did." But in Texas, the threat of using nonunion crews and actors allows a producer to bend the rules and to pay an extra the minimum wage, about $30 a day, instead of the $73-plus a day demanded by the Screen Extras Guild. One producer found that health and welfare, pension and other benefits came to 20% or less of his payroll in Texas, while in Los Angeles and New York they climbed as high as 35%—a saving of $330,000 on a typical budget of $2 million. Leonard Katzman, a producer of the *Dallas* TV series, says: "The basic crews in Dallas get a hell of a lot more done."

The benefits are not all on management's side either. One cameraman who moved from New York three years ago says, "If you want to be a filmmaker, New York and Los Angeles are not the places to do it unless daddy can get you into the union. If daddy can, then you can serve 20 years as assistant cameraman and, if you're lucky, become a cinematographer. Down here they pick a guy because of his talent, not his longevity."

The broadcast media's voracious appetite for entertainment product is spreading business nationwide. "Turn on your TV and see how many repeats there are now," says Fred Kuehnert, who puts together film packages for investors at Houston's Charter Financial Group. "Then imagine a TV with 99 channels and a video cassette player and a videodisc player. How are we ever going to fill those airways? Well, Texas is going to help fill them."

Dallas has a bona fide local success to encourage its aspiring filmmakers. In 1968 Joe Camp went to Hollywood with an idea for a movie about a dog trying to cope with some very human problems. "Cute, but it's been done," he was told. By 1973, though, Camp had a successful commercial studio with a financial backer who had promised him a film if he ran the firm in the black for a year. Together they raised $350,000 from some 15 investors, put in $200,000 of their own, and shot *Benji* in and around Dallas. "Hollywood said we were insane, that it couldn't succeed in major markets like New York and Chicago," chuckles Camp. The original *Benji* has box office receipts of over $45 million to date. With two more films, four TV specials a innumerable products, Camp figu Benji has grossed around $250 mill overall, and a Benji comic strip a Broadway play are yet to come.

Two Dallas admen, a photojourna and a disenchanted New York came man formed Dallas' Brimstone Films 1978 on "a wing and a prayer and $6,(from our first commercial," says K Stone, president. Revenues in 1978 w $34,000. Last year they were $513,(and Brimstone expects $1 million t year, with an operating profit margir 50%. Now Brimstone is moving fr commercials to entertainment, with movies and eight TV projects in works. "We can sell broadcasters a m ie for $3 million that would cost $7 r lion to make in Hollywood. That's a g deal in any man's world," says founder Charles Brim.

Texas bankers are sometimes a pr lem. "The financial community kn about real estate, energy, insuranc says Charter Financial's Kuehnert, " they don't know anything about filr On top of that, says Stone of Brimsto "We're perceived as crazy, dope-smok girl-chasers—certainly not the equal nuts-and-bolts manufacturers." Trammell Crow's investment in business is helping change all that. T banks, as one young filmmaker puts "can't tell Trammell he's nuts." ■

Far from the glittering precincts of New Yor and Los Angeles, an entrepreneur is makin Dallas a modeling town.

Kim Dawson's plain economics

By Phyllis Berman

THEY USED TO PAY RUNWAY MODELS $15 for a fashion show in this town," says Dallas' Kim Dawson. "We got to keep the girdle and stockings, but they owned our souls."

That was a long time ago, for both Dawson and Dallas. Dawson strides no runways these days, although at 56 she still looks like a model—soft hair tinted titian-red, clear skin and high, elegant cheekbones—retained, she says, with the aid of plastic surgery. She is beh the desk now, the owner of a $ million (revenues) modeling agency Dallas—which is currently challeng Chicago to become the nation's num three modeling center after New Y and Los Angeles.

Dallas' appeal to the fashion trade i combination of wholesome good loc and fees that are substantial but not st tospheric. Its top models may do a Pe television commercial or model ha couture for Neiman-Marcus, but wh

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their New York counterparts reportedly are asking $2,500 for a day's work, in Dallas five or six top models can command $1,000 a day and most work for $750 per day or $100 an hour. Dawson's highest earner—Karen Jones, 29—makes $65,000 a year; in New York she would haul down $150,000.

Word is spreading. "Since the first of the year we've been sending models to Atlanta weekly," says Dawson. "And Florida is becoming a big market for us. It's plain economics. There's a backlash over those New York fees and I think it's driving business to us."

New York's top two agencies, Ford Models and Wilhelmina Models, merely shrug. "I've been in this business for 14 years," says Frances Rothchild, executive vice president at Wilhelmina, "and I've seen this kind of revolution happen every couple of years, where they threaten to take business out of New York. But then they always have to come back, because the quality of work here is far superior."

While Dawson concedes nothing on quality—she terms the New York look "older, more sophisticated"—she makes sure her well-scrubbed, youthful models retain their cost advantage. When they point to the bigger cities' day rates, she responds: "It doesn't work that way here. At higher prices, you're not going to find employment."

Kim Dawson Agency, Inc. takes in $3.5 million of Dallas' $8 million to $10 million in modeling revenues. That's not bad in a mini-industry that grosses around $50 million nationwide, led by New York's Ford Models at $11 million.

The eldest child of a divorced mother who worked in a laundry to support three children, Dawson left Center, Tex. (population: 5,800) after high school for business school in Dallas—when business school for women meant secretarial training. She went to work for Senator Tom Connally in Washington because, she says, "there were lots of men there," and got into modeling on a fluke. "A lot of the secretaries on Capitol Hill were selling war bonds, and because I'm the cheerleader type, I sold enough to win a trip to New York where Mayor La Guardia presented me with a key to the city and, as part of the festivities, I was introduced to Harry Conover," then one of New York's top agents.

"I was never a top model," says Dawson. "I was what's called a good Seventh Avenue model." She did runway shows for American designers like Pauline Trigère and put in spare-time hours working as a teacher of poise to help pay her younger brother and sister's way through college.

Kim Dawson (right) *and Kim Dawson Agency models*
Wholesome good looks and reasonable fees spell employment.

She went abroad with the first wave of American models to work in Paris. When that was over she preferred Texas to living in New York—as do many of her models today. She came to Dallas intent on "being something grand, like a buyer for Neiman-Marcus." Instead, she ended up on the Neiman-Marcus runway, but with bigger ideas about the business. "I would always be the one to go to management and demand more pay," says Dawson, who by that time, 1955, had married a member of the Dallas symphony and had one child. But when she first suggested the idea of an agency to other models, "the women didn't believe they could bargain with a department store like Neiman's. Besides, pettiness cropped up about who would take the bookings and how they wo distribute them. The women sim didn't trust each other."

She shelved the idea for eight ye while she had two more children. But 1963, when Dawson could no lon model, she called together some mod from Neiman's, and "wrote the fashi director that if they wanted to bo these girls, they would have to bo them through our new agency." S smiles, recalling her surprise. "We w worried that we'd all be fired. But N man's was basically grateful. They co do with one phone call what it had tak dozens of calls to do before."

Dawson pioneered a regional busine Today most Southwest regional dep ment-store advertising, for magazines catalogs, is done out of Dallas—with huge Apparel Mart—rather than N York, where such work was once do Dawson takes 10% of her models' f and another 10% from the advertiser New York agency might take 20% of models' far higher fees.

Achievement is a Dawson trait: C daughter is a doctor, another a Ph candidate in physics ("I tried to talk l into modeling; she was the only one w could have qualified," says the mothe bit wistfully), and her son studies for ministry. Nor is Dawson herself slacki off. She is busy these days building sev al businesses while continuing to w as if she were only starting out on l first one.

She directs the Apparel Mart's fash shows and so gets her office rent-free— well as a $40,000 annual salary. She c up used booking cards to reuse as n paper. "People ask me, 'Why don't y use proper paper?' I tell them these w do fine," says Dawson. "People tell I'm a multimillion-dollar business. I not in my head, I'm not."

That doesn't mean she's think small. She has added a speakers' bure (Will Rogers Jr. is its most notable spe er). She has opened a training cen equipped with video cameras for her o models as well as for executives fr local companies who are asked to app on television.

For the inspiration to use one busin to develop another, she credits retail legend Stanley Marcus. "He still did commentary for fashion shows whe worked for Neiman's," explains Daws "Well, I can remember thinking a walked across the runway for the si time, 'Mr. Stanley, you've said about there is to say about this dress I'm we ing, so let me leave.' Not Mr. Stanley. would start talking about the color y were wearing and how it reminded h of the color of the tile in the bea salon. Before you knew it, he would peddling the beauty salon."

Entrepreneurs seem to be one of T as' leading crops these days. ■

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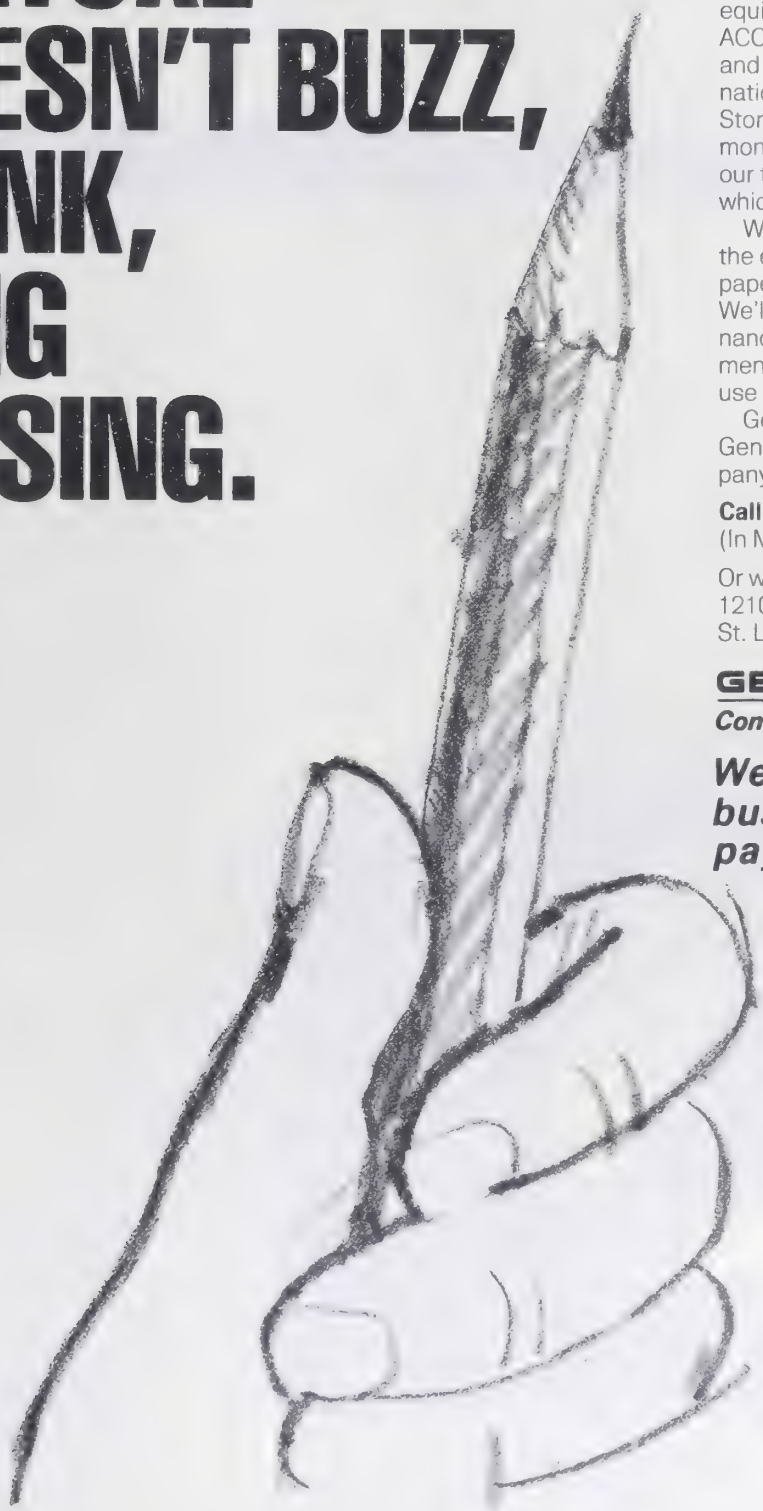

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When the rest of the toy industry had written Hasbro off, Steve Hassenfeld came to grips with a company wracked by family feuding

"You could see it in their eyes . . . 'has-been' "

The Up-And-Comers

By Steven Flax

I WILL NEVER FORGET the looks I got at Toy Fair 1979," says Stephen Hassenfeld, president of $104 million (sales) Hasbro Industries, Inc., a toy manufacturer from Pawtucket, R.I. "You could see it in their eyes. . . . Hasbro is a has-been."

It wasn't just that Hasbro didn't have a single electronic game in its catalog. Or that the company had lost $2.5 million on $74 million sales the year before. Everyone knew that Hasbro was being torn apart by the two feuding branches of the Hassenfeld family, which together owned 75% of the stock. One side of the family, headed by Steve's father Merrill, ran the toy side of the business, while the other, headed by Steve's uncle Harold, ran the pencil-making side in Shelbyville, Tenn. Merrill had appointed his son Steve president in 1974. But when Merrill died in 1979, Harold refused to acknowledge Stephen as chief executive of Hasbro Industries. The atmosphere was hardly conducive to a turnaround.

But that's what happened. And if Steve Hassenfeld talks freely about those days now, it's because he can afford to. Last year the company earned $4.6 million, a return on rebuilt equity of over 20% on continuing toy operations (including the $1.35 million aftertax from the sale of G.I. Joe). Long-term debt has been halved to just 29% of capitalization, low for the toy industry. Average bank borrowings in 1980 were down 24% to $11.8 million, and cash on hand at year-end was $12.03 a share *vs.* just $1.31 in 1979.

Stephen Hassenfeld of Hasbro
"In this business more die of indigestion than starvation."

If Hasbro Industries today looks l anything but a has-been, it is mai because Steve Hassenfeld picked it up the bootstraps in 1977 and began to t charge. "I was 35 years old and I thou to myself, 'You've been at this for years now and it's not better,' " he calls. "Is this where you want to sp the rest of your professional career? If going to be a roller coaster maybe should cash in the chips now."

Hassenfeld decided to stick it out, sisting the temptation to blame Hasb problems on a volatile industry. "I ha come to grips with the fact that o people in this business were successf he says. "What became stark reality that point was that we lacked discip here. 'How is it possible,' I asked my 'that we can bring more new product market in the course of a year t Procter & Gamble?' "

The question, once raised, instar triggered an answer: Clearly, Has could not afford that policy. "Firm our size, in this industry, can't bring many products to market and give e element of every product the kin tender loving care it must have," Hassenfeld. "The commercial and m plans have to be right if it's a prom product, also the price, the packag quality, delivery . . . that's a full b Attention to detail is critical. If you down in two areas, you're almost sur be in trouble."

It was a classic mistake for a fash oriented business. No one bothere look too closely at the true costs of k ing outmoded products like tiddly-wi in the line. The attitude was: It cove little overhead, leave it in. More products seemed to mean more cha to hit it big, despite the fact that it meant stretching the resources of company so thin that none of the p ucts had enough marketing muscle

The Equitable Annual Report 1980

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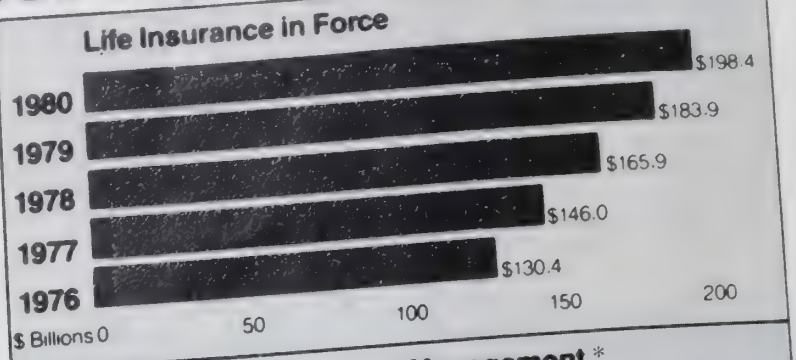

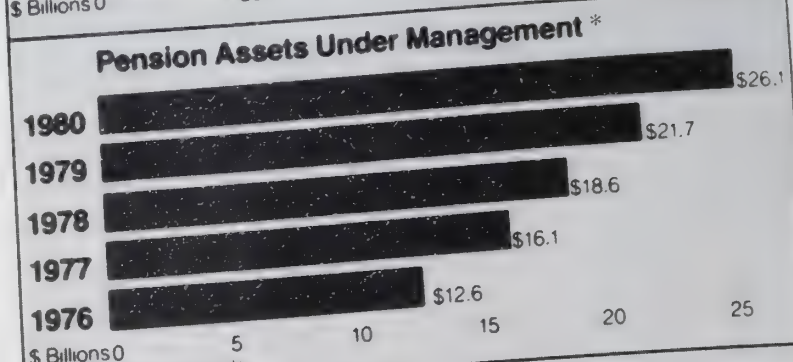

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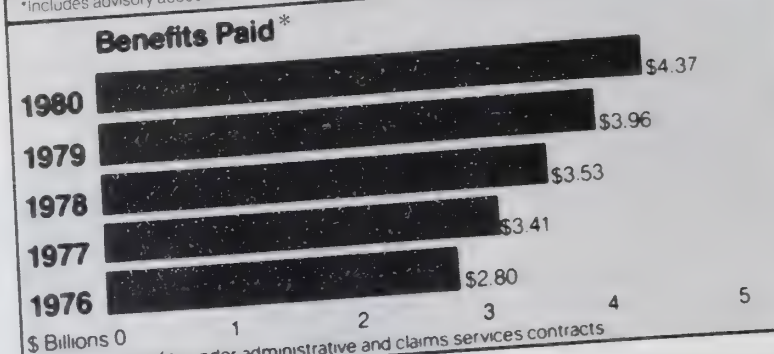

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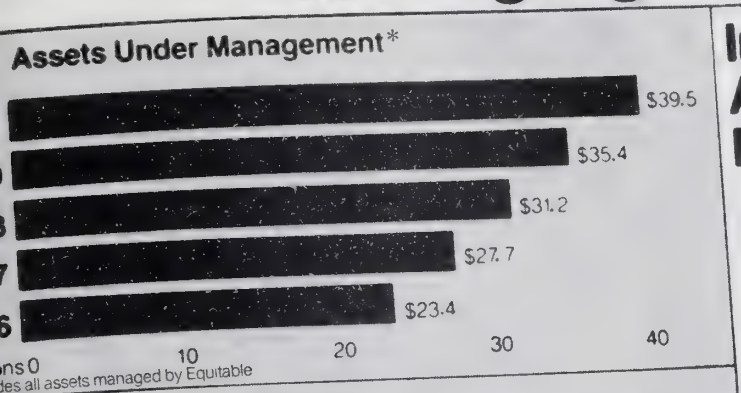
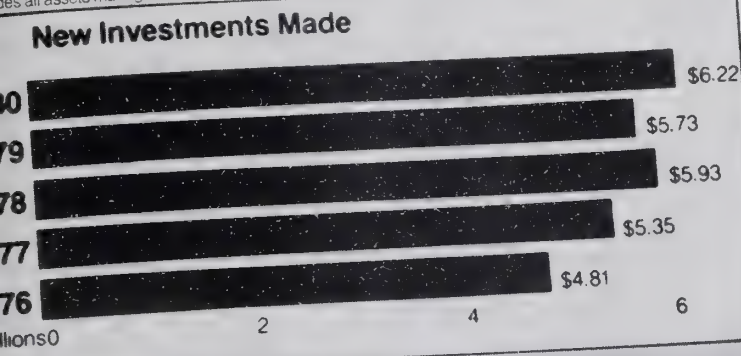
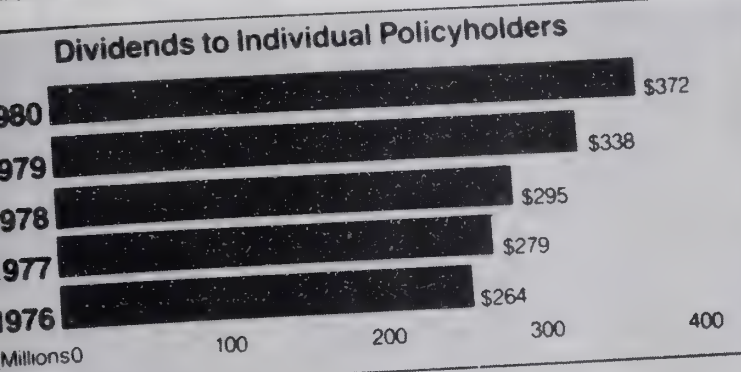
In addition, surplus earnings were $104 million, bringing the total of "owner equity" to $1.063 billion.

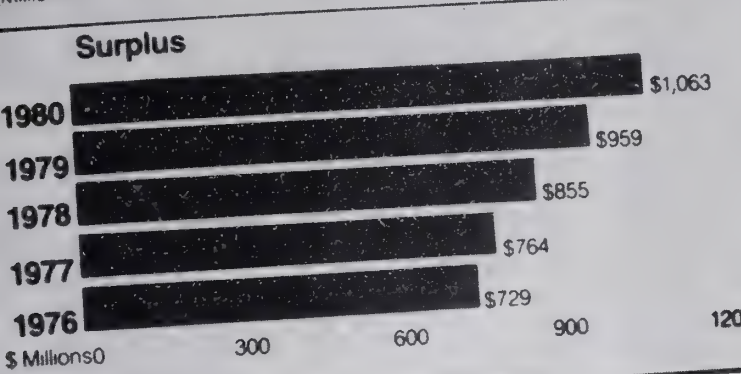
There exists a spirit of achievement and a sense of unity in this institution that augurs well for the future.

1980 Highlights









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them to ensure success. No one at
o had attempted to stay current
the true cost of launching a new
ct. "We all sort of grew up when
osts of product development, tool-
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re today," says Hassenfeld, "a time
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ssenfeld then took his analysis a
urther. The most successful firms
e toy industry, those with the
est earnings growth, had special-
product lines, he noticed. Fisher-
for example, with its preschool
So, breaking with past tradition,
nfeld decided to limit Hasbro's
ct line to three sharply defined
s—preschool toys, 3-D skill and ac-
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that simply didn't fit Hasbro's new
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ng was decisive. Since 1978 Has-
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from 180 to 120, and new product
luctions have been cut by half, to
25. "In this business more people
f indigestion than of starvation,"
Hassenfeld.
sbro's new policy looked uncom-
y shrewd two toy fairs later after
got burned with electronic games,
because there were too many simi-
oducts cluttering the market. Last
Toys R Us, the nation's largest toy
er, was forced to slash prices to sell
ut of obsolete electronic games be-
hristmas. "We felt, 'Hey, we'd bet-
nload this stuff and bring in other
nandise,' " says President Charles
us. That other merchandise was
Hasbro had been concentrating on.
nk their product line is 'today,' "
Lazarus. "The consumer won't ac-
hings with high price tickets. Has-
as been innovative in developing
cts and good at culling out mer-
ise that doesn't mean anything. I
they've got a good chance to be a
ctor in this business."
h its strong Romper Room pre-
l line of 30 products including jack-
-boxes and pull toys—which has
63% since 1978—Hasbro should
it from a preschool population that
robably increase 24% over the de-
according to the Census Bureau.
ssenfeld, a bachelor who likes to
around Rhode Island in his gold
he Targa, has been very conserva-
vith Hasbro's licensing policy. Un-
g to risk further losses, he shunned
ven, fad-oriented properties in fa-
f tried-and-true *Sesame Street* and
ts characters like Cookie Monster,
Big Bird and Snoopy. "When we buy a license today, we know what we're buying because it's already established in the marketplace," he says. "The other sort of licensing is really a crapshoot. Everybody remembers how Kenner went to the moon with *Star Wars*, but that's the exception. Who remembers how poorly Mego did when it licensed Disney's *The Black Hole* for its products? And even if you're successful with that sort of speculative licensing, more often than not it doesn't last very long. So what do you replace it with?"

While Hassenfeld was implementing his successful new strategy, the Hassenfelds called a truce in the civil war. Last September the toy business and the Empire pencil business became separate companies, following a tax-free split-off. No longer is there any common ownership or management by the Hassenfeld clans, both of whom share the heritage of a business founded in 1923 by two brothers, Henry and Hillel Hassenfeld.

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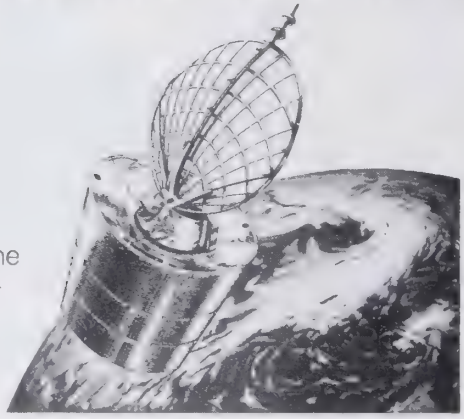

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as Steve genteelly puts it, "textile oducts," that is, rags. When Henry he could get more money for his by wrapping them around pencil he sold pencil cases. When pencil iers raised the price of pencils, the nfelds started making their own ls. When toy manufacturers found der to get supplies than did school iers during World War II, Hasbro l the opportunity to branch into the d field of toys. Back then the buyers utlets were often the same for toys school supplies.

in time the two clans began to about long-term goals, financing perational details. Seemingly rou- nanagement decisions on advertis- xpenditures or inventory manage- often required protracted negotia- For example, when the pencil on wanted extra capital to develop tic pencil, the toy people had other about how to spend the money.

ically, it was only *because* Stephen nfeld's product strategy began to f that the long-desired partition of ompany could be achieved. Before utside shareholders could be asked e to go with either the toy or the business, then incorporated for urposes of the split-off, there had to urance that they would be getting l opportunity. That became a reali- September 1980, after Hasbro put ner six profitable quarters. After areholders voted to go to one side other, Harold Hassenfeld tendered s Hasbro shares for shares in the Empire Pencil Corp. Thereafter, e's shareholders received from o all or nearly all of the pencil ion's assets and the switch was Empire's shares are now inching way upwards over-the-counter, d by the 250% earnings growth the split-off.

ay Hasbro is reaping the benefits eve Hassenfeld's product philos- No more than 10% of Hasbro's ues are generated by any one prod- ompared to the mid-Sixties, when oduct, an action figure called G.I. ccounted for almost 65% of sales. 50% of last year's toys have carried gh to 1981, compared with less 50% in 1979, and most have sold t the retail level. Fewer new prod- neans that tooling costs are les- and allocations of advertising clout w product increased, even though ots get more expensive. Less prod- urnover means that there's more and money to develop and test- t the new ones. The Hasbro plants, singly working on products they're ar with, now operate more effi- y. Last year Hasbro turned over its inventory six times, and kept it at a level comparable to 1967. Stockkeeping units (the number of different finished products that have to be kept in stock) are at their lowest levels in over 15 years.

Without the steady earnings of the pencil business to fall back on, Hasbro is a bit more vulnerable to the industry cycles than before. But Steve Hassenfeld far prefers that risk to the much greater risk of sloppy management. "Dammit," he says, ruefully recalling Hasbro's recent problems, "life is supposed to be a series of experiences from which you learn and on which you build. And we hadn't done that here."

Now, Stephen Hassenfeld *has* shown the capacity to learn from life's experiences, and maybe even teach a few things to the toy industry as well. ■

A convoy of Ruff Truks moves down the assembly line

Less product turnover means that there's more time and money to develop, advertise and test-market the new products.

This is the house that Jack built

Jack Daniel's, that is, built on very high ad outlays in the branded goods business.

By James Cook

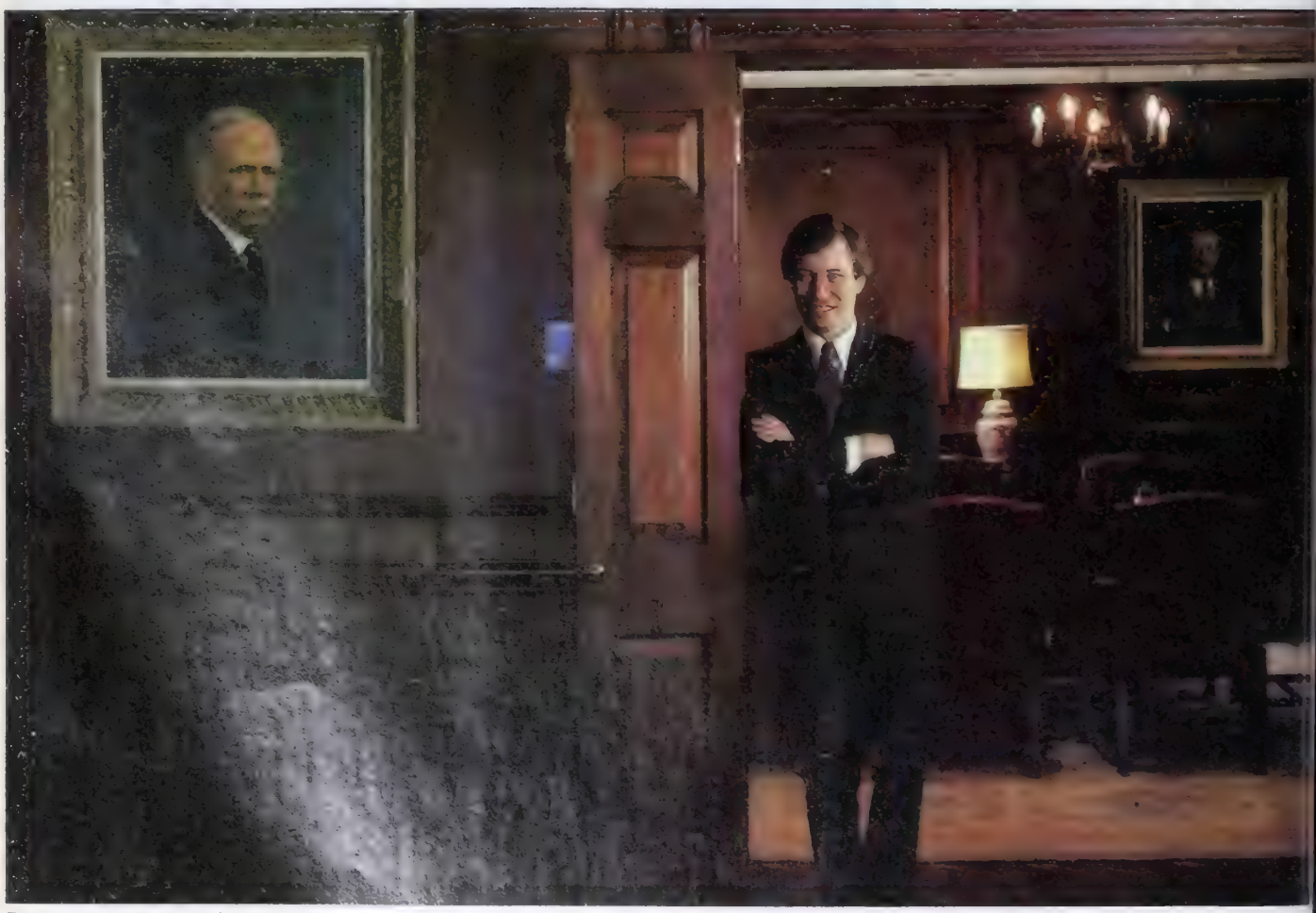
A DECADE OR SO BACK, when demand for gin, vodka and rum began to transform the liquor business, Louisville, Ky.'s middling-size Brown-Forman Distillers seemed at a particular disadvantage. The distributors wanted a full market basket to sell, while Brown-Forman's mainstays were bourbons—Early Times and Old Forester—and Jack Daniel's, a Tennessee sour mash whiskey.

"There was a feeling," President Lee Brown recalls, "that companies had to be in all areas of a rather broad business—gin, vodka, everything. But we were competing with some awfully large people, so we had to husband our resources carefully. We came to the conclusion we couldn't do everything. We'd concentrate on areas of opportunity in which we saw a future and that had good returns on investment."

Lee Brown became chief executive only in 1975, but he was hardly a stra er to the business. He is the fifth Bro to head the company since its found in 1870 and his family still controls o 50% of the voting stock. Brown-Form had always specialized in selling hi quality, premium-priced products, an didn't see how it could move into g vodka and rum except as a commod producer. How could it? The high grou was already occupied. Smirnoff ha commanding position in vodka, G don's and Gilbey's nearly as firm a g on the gin market, while Bacardi pinned down about two-thirds of market for rum.

So Brown-Forman proceeded to go own way, leaving gin, vodka and rum others and cultivating some spectacul ly successful market segments of own. For the truth is, the market changing in more ways than one. T Pepsi generation—the kids brought on soft drinks instead of water or mil were coming of age. The market turning away from full-flavored bourb and blends—to vodka and rum, and a to blander or sweeter beverages of sorts: light whiskies and wines, liqueu brandies and cordials.

Never mind about vodka or gin th Brown-Forman found plenty of opportu ties elsewhere: Canadian whiskey, for



Brown-Forman President Lee Brown

After 100 years, the Pepsi generation began shaping the market and the company.

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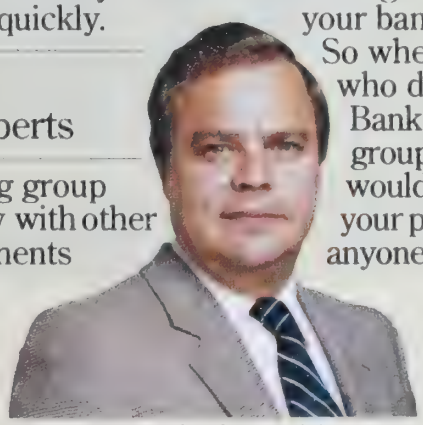

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nce, through the acquisition of Canadi-
Mist, an Ontario distillery. The very
of the market was dominated by Cana-
n Club and Seagram's VO, but there was
clear leader among the slightly lower-
ced, U.S.-bottled Canadian whiskies.
Brown-Forman began bottling import-
Canadian Mist at its Louisville plant
l backed up the brand with a heavy
ertising and promotion budget. Cana-
n whiskies had the gentler taste the
v market wanted, and in less than a
ade Canadian Mist became the leading
.-bottled Canadian, although it re-
ins a laggard third (at 3.05 million cases
ar) to Canadian Club (3.65 million) and
gram's VO (3.45 million). But Canadi-
Mist was rapidly gaining ground. By
0 it had 13.5% of an expanding market,
.1% in 1975.

rown-Forman did very nearly as well
building a major position for itself in
e: in premium-priced Italian imports,
h the acquisition of Bolla and Cella in
late Sixties, and in California cham-
nes and brandies with the acquisition
worldwide marketing rights to Korbel
1966. By 1981 Cella and Bolla had
5% of the imported table wine mar-
, and Korbel had cornered 7.6% of the
nestic market for brandy, 4.1% in
mpagne.

ut the real wonder in Brown-For-
n's hand was the success of its Jack
niel's Tennessee whiskey, which the
npany acquired back in 1956. Jack
niel's was unique, a high-quality, pre-
m-priced product that somehow em-
ied images of nostalgia, Americana
natural foods all in a single sip. With
wn-Forman's promotional talents be-
d it, it did spectacularly well, averag-
15% a year unit sales gain over the
enties, 18% last year, with no end in
t. Always on allocation, never at dis-
nt, Jack Daniel's probably generated
y 20% of the $500 million in net sales
cluding excise taxes) Brown-Forman
l report for fiscal 1981 early next
nth, but close to half its $65 million
o in net income.

nd a good thing, too, because the
tucky bourbons on which Brown-
man's fortunes have historically rest-
have been gradually falling out of fa-
Overall bourbon sales are off 6.1%
n 1978, with Early Times down 8.4%
Old Forester down 17.2%. Though
e observers expect changing demo-
phics to bring bourbon back into favor
in, Lee Brown at this point is not
ng them.

n marketing his brands, Brown has
hesitated to expend money fairly lav-
y: over 11% of sales in recent years—
million in calendar 1979, $60 million
980, probably $73 million this year—
portionately one of the highest levels
where in the branded goods business.
hat makes the business go," Brown
s, "is advertising and price." What
does that mean? It means that sometimes a brand will sell better at a higher than at a lower price. Liquor, like many other items today, tends to be price sensitive in reverse. Lee Brown puts it delicately: "You might raise your prices just to maintain your position if a competitor does, even when you didn't need it to maintain your margins."

Brown pioneered the application of Procter & Gamble's famed brand management concept to the liquor industry, setting rates of return both for divisions and individual brands. "Each brand has to meet our various investment criteria, and on the whole all of them do. We expect any investment to return at a minimum the cost of the capital—somewhere between 14% and 15% right now—and it should return more, much more as you get into riskier and riskier ventures. When interest rates were lower, of course, we had lower criteria."

Brown's approach has paid off. Over the past five years, Brown-Forman has emerged as the fastest-growing and most profitable company in the liquor business, with an average return of 16.8% and an average annual earnings growth of 16.2%. That puts its return slightly ahead of Heublein's and its earnings growth well ahead of Seagram's, National Distillers' and Heublein's alike. Last year, when National Distillers' earnings were down 21% and Heublein's up 14%, Brown-Forman's earnings were up an estimated 35%.

Not surprisingly, Brown-Forman commands a premium P/E of 12, *vs.* 8 to 10 for the competition. This premium reflects its superior growth record. Forman gets some 95% of its volume from eight major brands, most of which had been insignificant a decade ago. Early Times, Old Forester and Jack Daniel's still contribute 48% of the company's volume, but the rest comes from imported spirits (20%) and wine and specialities (32%).

Brown-Forman's latest acquisition is the biggest and most ambitious so far—Southern Comfort, a liqueur, one of the great names in the business, which it acquired two years ago for $95 million. Though its growth has slackened currently, Brown hopes to regain something like the 7% growth rate Southern Comfort had in most of the Seventies by broadening its market beyond the under-35 age group, extending its already considerable currency overseas, and backing it heavily with big money.

Lee Brown and the other folks at Brown-Forman are the kind that tend to see the glass as half full rather than half empty. Is wine cutting into the sales of spirits? Good. Says Brown: "The switch to wine is the most explosive thing that the business has seen in decades. It's really a new, new market."

Who says a smallish company can't possibly thrive in an industry dominated by giants? ■

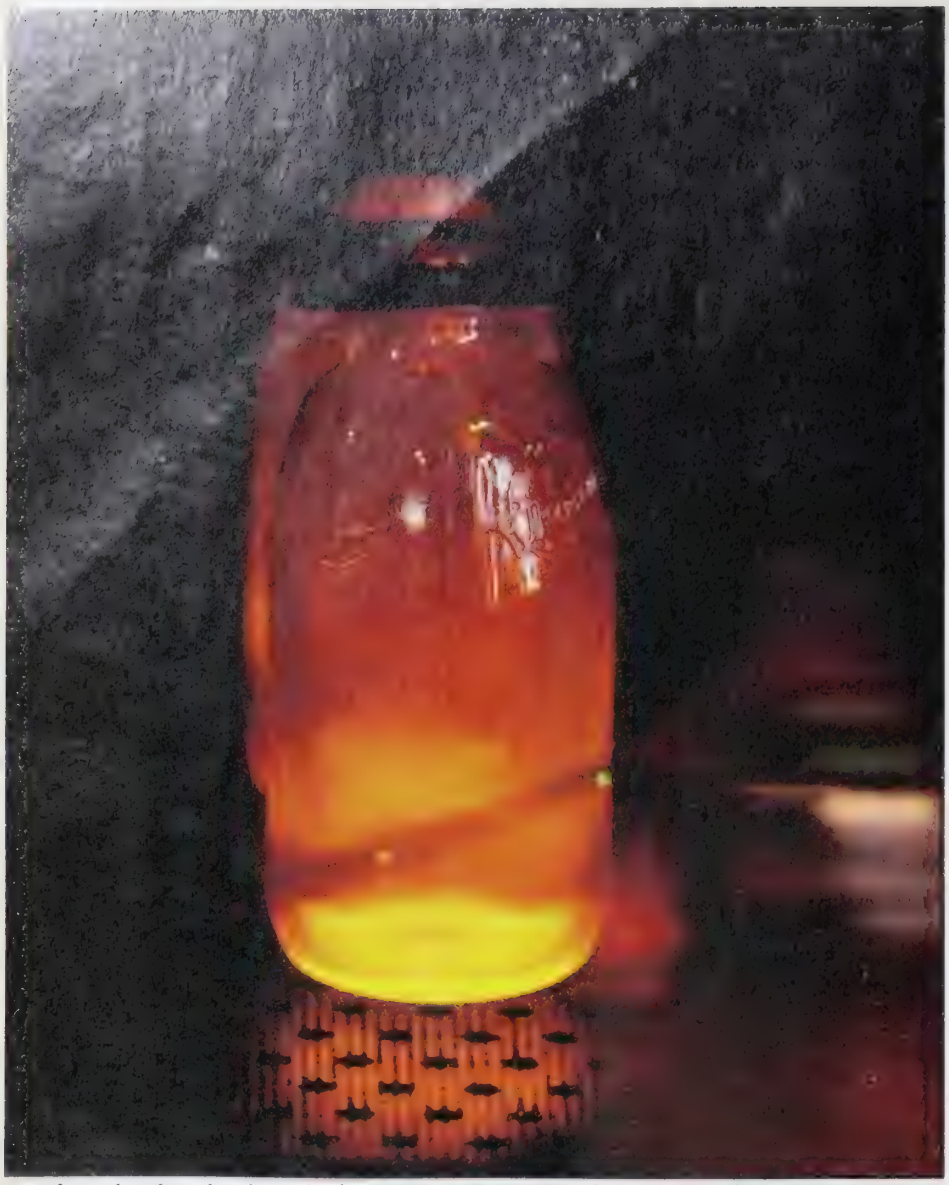
The boss of Kerr Glass Manufacturing came, saw and conquered a few of his tradition-bound industry's self-inflicted problems.

Clear as glass

By Kathleen K. Wiegner

CHAIRMAN WILLIAM A. KERR didn't take over the family business, Los Angeles-based Kerr Glass Manufacturing Corp., until 1967, when he was 52 years old. But he brought an outsider's clear vision to a business that had become more venerable than successful. "I think the glass industry fooled itself for years," says Bill Kerr. "Every survey showed that without a doubt the consumer preferred glass. But it turned out that he didn't prefer it so much he wouldn't switch to an aluminum can or a plastic bottle."

Where glass once dominated an estimated $9 billion beer and soft-drink container market, aluminum cans have grabbed 77% of both markets in the last decade. And plastic bottles for soft drinks, in the two-liter size, have pushed glass right off the supermarket shelves in the last three years.



A molten glass beer bottle in the forming machine at Kerr's modern Wilson, N.C. plant
Stemming the aluminum tide, reclaiming lost territory.

The result has been mediocre profitability for all glass bottle manufacturers—led by $4 billion (revenues) Owens-Illinois—and gyrating earnings for $400 million (sales) Kerr Glass, which was founded in 1903 and is still known for the mason jars Bill Kerr's father produced. Kerr last year got 76% of its $400 million sales from bottles and jars but only about half of its earnings of $10 million, or $1.63 a share, before an extraordinary item.

But Kerr, who worked as a pilot for TWA and Northrop for 15 years before taking over at Kerr Glass upon the death of his mother—who ran the company for 42 years—believes that glass can make a comeback. That's why by year-end he will have invested $149 million over the last six years in modernizing and expanding his nine glassmaking operations, upgrading and automating to reduce energy and labor usage.

Cost, from the heavy use of both energy and labor in its production, was glass' main competitive disadvantage. On the other hand, Kerr discovered self-inflicted wounds as well. And he has helped cure several of them.

After aluminum cans swept away much of the beer container market, Kerr took a close look at the reason. Sure, suds drinkers liked those aluminum cans, but brewers liked them more, he discovered. The quality of beer bottles was so uneven that about 15% broke on the brewery's high-speed filling lines. Brewers had to slow the bottle lines. Time is money, so they pushed aluminum cans.

Kerr looked to Germany, where he found a process for making stronger, lighter beer bottles. He bought a license to use the process, and since 1974 has converted about half of his 62 glass lines to the improved Heye bottlemaking system. But when Kerr tried to relicense the process to other American bottlemakers they balked, preferring to develop their own strong-bottle processes. Smallish Kerr Glass didn't have the pull, Bill Kerr learned, to lead an Owens-Illinois or Anchor Hocking.

A different approach worked bett After aluminum beer can manufactur invented the pop top, Kerr developed t twist-off bottle cap.

"To make the twist-off cap an indu try standard," he says, "we had to get the bottle manufacturers to change t tops of their bottles. We were too sm to do that alone." So Kerr *gave* t design to his competitors. Pretty so every bottle manufacturer was usi twist-off beer caps.

The upshot: With disposable bott and convenient caps, glass manufact ers have stemmed the tide of aluminu beer cans and are reclaiming some of t territory they lost during the Seventi Since 1976 industry shipments of non turnable beer bottles have jumped alm 50%, helped by sales to Miller—wh sells its High Life and Lite brands mos in bottles, and by image-conscio Americans' recent thirst for handsom bottled "super premium beers" like A heuser-Busch's Michelob.

Meanwhile, in the soft-drink mark "the industry almost dug its own grav says Kerr, crossing his office to exam one of the scores of bottles lining shelves. "We said we could make glass any shape, color or size, and so we w making thousands of different bottle Kerr found that he had to halt bottlem ing lines—driving up expenses— change a Coke bottle mold, say, to c for 7UP.

So, Kerr convinced bottlers of Co Pepsi and other soft drinks to switch uniform, throwaway glass bottles pr beled with brightly colored plastic. J as in the beer market situation, gl bottlers finally are regaining some l market share in single-service-size s drink containers.

Along the way Bill Kerr has brou some balance to the earnings of the co pany he took public in 1975. His tw off bottle caps, childproof plastic caps medicine bottles that the company designed, and plastic toiletry bot brought in nearly half the earnings only 24% of the sales.

Perhaps the one thing on which K may not have a clear vision is his c successor. Three years ago he brough an heir apparent from Owens-Illin but the man quit two years later. Abo year ago Kerr named his financial v president, Roger Norian, as president 66, Bill Kerr insists he's stepping b and yielding much of Kerr Glass' d operations to Norian, but adds that "N ian may not know enough about all business yet."

After one career indulging his lifel passion for flying, Kerr appears to h found more excitement than he lets in running a business. And that ha been a bad thing for Kerr Glass. ■

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American Express is that rare company that can afford to sit back and take a long view of things. It's gambling heavily to do just that.

The tube, the card, the ticker and Jim Robinson

By Thomas O'Donnell

BIOGRAPHER Hesketh Pearson tells this story about George Bernard Shaw: The great Irish dramatist was once approached by a young woman who said: "You have the greatest brain in the world and I have the most beautiful body; so we ought to produce the most perfect child."

GBS raised an eyebrow: "What if the child inherits my body and your brains?" he asked.

This is what happens all the time in business and to the best of companies. General Electric teamed up with Time Inc. to get into educational materials ("Your software and my hardware. Wow!"). The offspring, General Learning Corp., lost millions, having come nowhere near their hopes. Transamerica Corp. bought United Artists, marrying the former's money and managerial knowhow to the latter's motion picture talent. They produced *Heaven's Gate*, which threatens to be the worst financial failure in movie history. We could go on and on but you've gotten the point by now: You don't always get synergy when you put two successful but disparate organizations together. Sometimes you get disaster.

Say this for the pending merger of American Express and Wall Street's Shearson Loeb Rhoades: It could prove to be anything from a beautiful piece of synergy to a $1 billion disaster. Amex isn't spending $900 million just to buy into the stock brokerage business any more than it was just investing in cable TV in 1979 when it spent $175 million to buy a half interest in Warner Communications' Warner Cable Co.

Amex Chairman James Robinson III, 45, looks remarkably youthful for the head of a $20 billion corporation. He sips an early-morning Coke—like any good son of Atlanta—in his Manhattan office perch. "Up to now," he says, "our slogan has been: 'Don't leave home without us.' In the future it could be: 'Don't stay home without us' as well."

It's the Marshall McLuhan revolution that Robinson is referring to. He's looking toward the day, fast coming, when the video screen won't be only for entertainment but will be, in effect, everyone's window on the world. People will use it for shopping, for banking, for investing, for buying insurance—and, of course, for entertainment, but on a far larger and broader scale than now.

Are you old enough to remember when your mother did her grocery shopping in segments: the butcher, the fruit and vegetable store, the grocery store, the milkman, the butter-and-egg man? That was before the supermarket, of course. The consensus is that a good many financial functions are still handled in the old grocery store method, but that the supermarket is coming to finance via the TV screen, or something like it. Amex already has part of what it needs to make a big splash in this market: the little plastic card, the late-20th-century piece of magic that replaces checks, money and charge accounts. It already has, too, an insurance company and an international bank. With Shearson and Warner Amex it has two more ingredients for the financial supermarket of the future.

"Jimmy Three Sticks" (for the III) is thinking very big these days. "Our prime objective is to provide, directly and with banks, the widest variety of consumer financial services available from any single source," he says.

Some would say that Robinson may be overreaching. "The Shearson and Warner mergers look great on paper," shrugs one unimpressed analyst. "But the payoffs are still way off in t future."

That they are. But the future is *now* the acquired companies. In addition plunking down $175 million in cash a notes for its half-interest in Warner C ble, Amex expects to guarantee up to $ million of its debt, which is now bei renegotiated.

As for Shearson, the merger mea that Chairman Sanford Weill is takin giant step closer to the objective of ru ning the nation's largest brokerage fir "Overnight, the move creates anoth Merrill Lynch," says a suddenly worri official of that firm. It also gives We and his shareholders a pile of prest and a bundle of money—Weill hims will end up with something like 0.(of Amex' stock.

Robinson was the chosen heir to t remarkable Howard Clark, who for years ruled Amex with a firm and kn ing but iron hand. During his rei Amex revenues grew from only $77 m lion to over $3 billion. Clark went a l way toward turning Amex into a fin cial conglomerate. He added Firema Fund, the nation's ninth-largest prop ty-liability insurer, to the compar lineup of traveler's checks and travel s vices, and got rid of other operation like freight forwarding—that did not in with financial services. He c quered—though he did not invent— credit card business, which has chan America's buying and spending hab Clark was a true pioneer.

Only recently has Robinson b viewed as that sort of man. His ea career was dominated by his fami business connections. After picking an engineering degree from Geor Tech and an M.B.A. from Harvard, went to work for Morgan Guaran where he was a protégé of then-chairm Thomas Gates Jr. He later moved ove

rson Chairman Sandy Weill

The Sandy Weill-Jim Robinson combination could turn out to be ynamite if it works. If it does not work, on the her hand, gossips on Wall eet will have a field day of second-guessing.

American Express Chairman Jim Robinson

Fireman's Fund Chairman Myron Du Bain
"We cut our thumbs and bled into the bowl."

White Weld, where he met Salim Lewis, the man who later was to introduce him to Sandy Weill *(see box, p. 104)*. At both companies he was on a fast track virtually from day one.

In 1970, at age 35, Robinson was lured to American Express by Eugene Black, onetime head of the World Bank, an Amex director and a friend of Robinson's father, James Jr., the former chairman of First National Bank of Atlanta. After two years running the bank and another two in the travel division, Robinson was named first president and then, in 1977, chairman. But anyone who thinks that Clark backed Robinson simply because he liked the stripe of the younger man's tie or the cut of his suit doesn't know Howard Clark. Jim Robinson is possessed of a highly disciplined ambition that matches that of any self-made man. It is not unusual for him to work 70 hours a week. The amiability only lightly masks the drive and high intelligence.

At the start, despite being to the boardroom born, Robinson was extraordinarily cautious and somewhat tentative. Shortly after taking over, he tried to buy Philadelphia Life Insurance, but lost it to a more aggressive bidder. Preliminary talks with Walt Disney Productions and Book-of-the-Month Club also fell through.

But Robinson came of age in early 1979 when he failed in his attempt to take over McGraw-Hill for $1 billion. Today Robinson looks and acts every bit the chief executive. Where there was iron there is now steel, and where there was caution there is now confidence.

Robinson has a good deal to be confident about. Whereas the typical chief executive has a brief time at best for making his mark, Robinson can look forward to two more decades in the top spot at Amex. He can afford the kind of gamble inherent in the big moves he is making, in part, because his reputation and his stock options do not depend upon what happens next quarter or the quarter after that.

So, what kind of company is he trying to build? Robinson clicks off the answer with Harvard precision, if not detail: "By 1990 you'll have a stockbroker in California, a banker in New York, an insurance agent in Maryland and a realtor jetting between Chicago and Boston. All your purchases will be on the American Express Card, of course. And within the decade you'll have the option of banking by mail or by cable television."

Cable is the wire that binds Amei strategy together. The theory is simpl Some 80 million homes have televisio sets, or video-display terminals, as Ame calls them. Get access to those sets an you can sell all manner of things.

But to sell on cable, a two-way sy tem—which allows viewers to send me sages using consoles wired to their sets– is essential. In two-way communicatior Warner Amex has a head start. Its sy tem is called Qube, has cost more tha $20 million to develop and is on line i Columbus and Cincinnati. "This is th cable of tomorrow," says Robinson, in rare moment of downright exuberanc "The synergy is incredible."

What synergy? Robinson won't sa He says it's because his lawyers have to him not to get specific while the Shea son merger is pending. Another reas may be Amex' long tradition as one the more secretive of U.S. corporations

But, as Robinson knows, Qube is no little more than a cute parlor game, a lowing viewers to "talk back" to the television sets. But its potential as a d livery system is enormous. A brief list possibilities includes:

- The ability to buy securities, wat blue movies, bet off-track, protect yo home with an electronic burglar alarm all while sitting at home and chargi such purchases to your Amex card (reg lations permitting).
- Amex gold-card holders with cre lines up to $25,000 could put these lin into money market funds with chec writing privileges.
- Amex cardholders could buy au property/casualty, life and health insu ance along with financial planning s vices—many of them developed by Fi man's Fund, packaged by Shearson a sold by Warner Amex.
- When the barriers to intersta banking erode, those 260 Shearson fices could be immediately convert into bank branches.
- As soon as the Shearson merger completed, Amex will come very close being a U.S. retail bank that operat outside banking laws. That will happ when Shearson customers are giv checkbooks and American Express car to pay bills or make purchases.

The last point is by far the most co troversial. Amex has prospered crossing the lines that restrict other nancial institutions. Insiders s McGraw-Hill's threat to lobby to ha regulators classify Amex as a bank wa major reason Amex dropped its bid.

Already the Independent Bankers A sociation of America, which represer 7,400 small banks across the country, raising a fuss about the merger. Late la month it sent a letter to the Justice D partment asking for a delay pending investigation of the merger's "potent

ompetitive effects."

e banks have a good deal to be wor- about. As financial services move the grocery store to the supermar- ıge, the banks are severely handi- ed. Even venturesome Citibank, a r competitor in traveler's checks redit cards, is snarled in the web of ession-era legislation that Amex blithely ignore. What about Time whose Home Box Office, similar to er Amex Satellite Entertainment Movie Channel, makes it presently biggest player in pay cable? Time the financial clout that Amex can to bear. Time Inc.'s earnings last were just $115 million; Amex' were than 3 times as great. More impor- Amex has enormous cash flow y from its up-front card fees and its ler's check float.

tentially the most serious competi- or, AT&T has the consumer fran- the money and the communica- skills. But Ma Bell and its subs are ed by legal restrictions that are only y crumbling. It also would have to ce its millions of miles of phone to send TV pictures. "We just don't eive of them as a competitor," says Freeman, who heads Amex' office ategic planning.

all these, only Amex is willing—and -to stake so much of its future on synergy. Take a look at cable. First, franchises must be awarded by local governing bodies. Winning franchises is something at which Warner Amex excels, largely because Qube is a tremendous selling point. In 1980 Warner Amex won the right to serve 1.1 million of the 1.6 million homes up for bid.

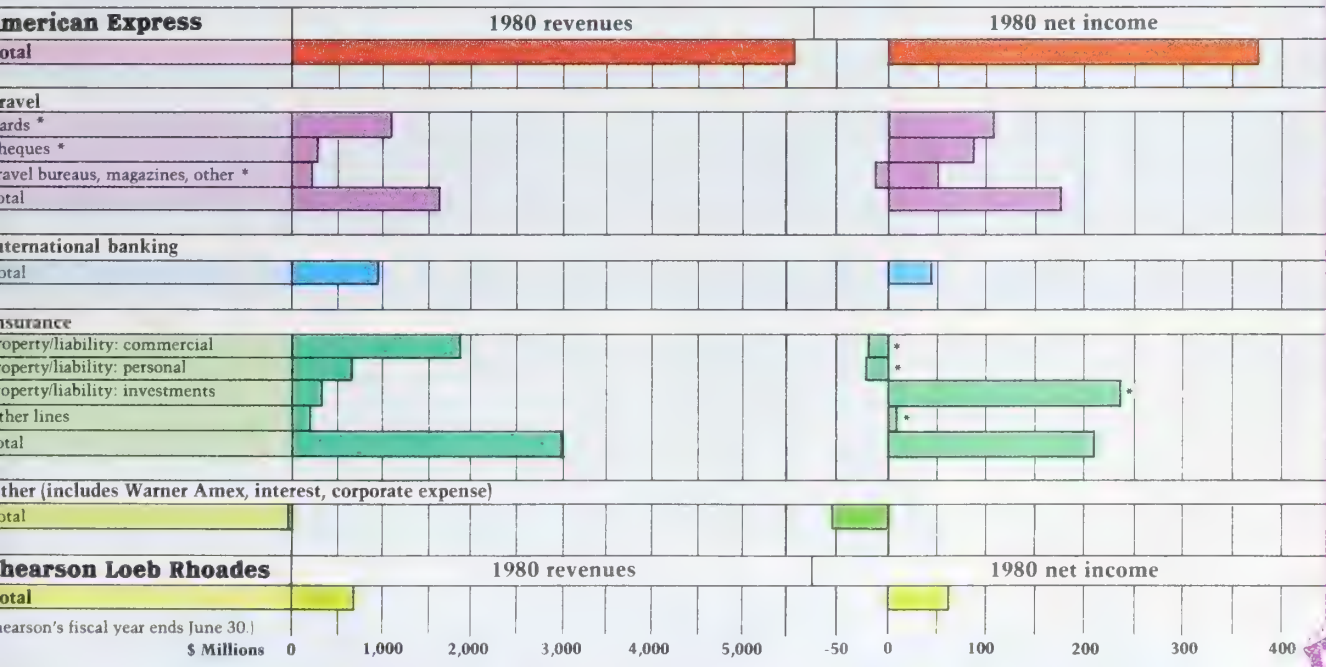
> With the older but highly profitable businesses as cash cows, American Express can afford to wait for profits from its newer businesses. "Once you get them rolling they become banks," says one favorably impressed analyst.

While Amex ventures boldly into new territory it leaves its traveler's checks and credit cards in the hands of newly appointed Vice Chairman Louis Gerstner, 39. Gerstner's assignment is clear, and if he succeeds he could follow Alva Way, 52, as president and Robinson's right-hand man. Gerstner must beat back the attempts of banks and the credit card systems to cut into these bread-and-butter businesses, while Robinson takes care of the company's future markets.

At first glance Gerstner's job seems formidable indeed. Amex has only 12 million cardholders, against 90 million for Visa and 78 million for MasterCard. Against this, however, Amex' cards are held by 64% of all Americans with incomes above $50,000, and 71% of those with incomes between $50,000 and $75,000. Those holders want the "country club"-style charge receipts and virtually unlimited line of credit that only Amex cards provide. "Our competitors are coming out with a Pinto to compete with a BMW," says Gerstner, who joined Amex from the consulting firm of McKinsey & Co. three years ago. Gerstner has reason for confidence: During the past decade Amex charge volume has consistently climbed and cards, checks and other travel-related services now contribute 47% of earnings.

Can that growth continue? Probably not indefinitely. The two credit card systems are not the only threat. Citicorp has acquired both Carte Blanche and Diners' Club and is expected to pour millions into them. Moreover, the U.S. card and traveler's check markets are maturing. That's where Robinson's long-range strategy comes in. With the older but highly profitable businesses as cash

People think of American Express as just a credit card and traveler's check company. Yet last year, these and related operations contributed less than half of earnings. The majority came from insurance and 11% from Amex' international bank. Adding Shearson should smooth out the cyclicality of the insurance business.



orbes estimate

ource: American Express Co. and Shearson Loeb Rhoades Co. annual reports

Warner Amex' two-way cable communications system is called Qube. It allows viewers to talk back to their TV sets but, for the present, is little more than a parlor game. Still, its potential as a delivery mechanism is enormous.

cows, Amex can afford a long wait for profits in its newer businesses.

"All their businesses are of that type," points out one analyst: "Once you get them rolling they become banks."

In 1968, as part of his grand strategy, Howard Clark acquired Fireman's Fund. Today Fireman's contributes more than 50% of Amex' earnings. But the insurance sub was not always such a welcome addition.

In 1974,. when the industry took a beating, Fireman's Fund operating earnings fell by 17% and the policyholders' dividends were slashed by 23%. "We cut our thumbs and bled into the bowl," says Chairman Myron Du Bain. "We resolved once and for all that we would resist underwriting cycle by staying out of price wars that bring it on."

So far that gamble is paying off. industry is now in the middle stages downturn, but Fireman's Fund's pe mance is less affected than most. In first quarter, Fireman's Fund's comb ratio—the lower the better—was aro 101, compared with an industry ave of 105 or so.

Ironically, Robinson's first fief Amex, the international bank, is the area where Amex may be dwarfed b giant competitors.

One problem, of course, is its comp tively small size. Another may be An

Instant millions

Sandy Lewis, matchmaker

Want to know how to make a few million fast? Take a lesson from Salim (Sandy) Lewis, son of the famous "Cy" Lewis. Sandy is the perpetual motion machine who introduced Jim Robinson to Sandy Weill and is reportedly getting a cool $3.5 million for his trouble.

Here's how the 42-year-old arbitrageur who looks like Robert Redford did it: One day last fall he called Weill, whom he had never met, and asked him to breakfast. A few days later he called Robinson, an old friend from their days together at White Weld. Then he introduced the two.

For this—a few telephone calls and some brief but intense negotiations—his firm, S.B. Lewis & Co., which he formed with Amex seed money in January 1980, will get its juicy fee.

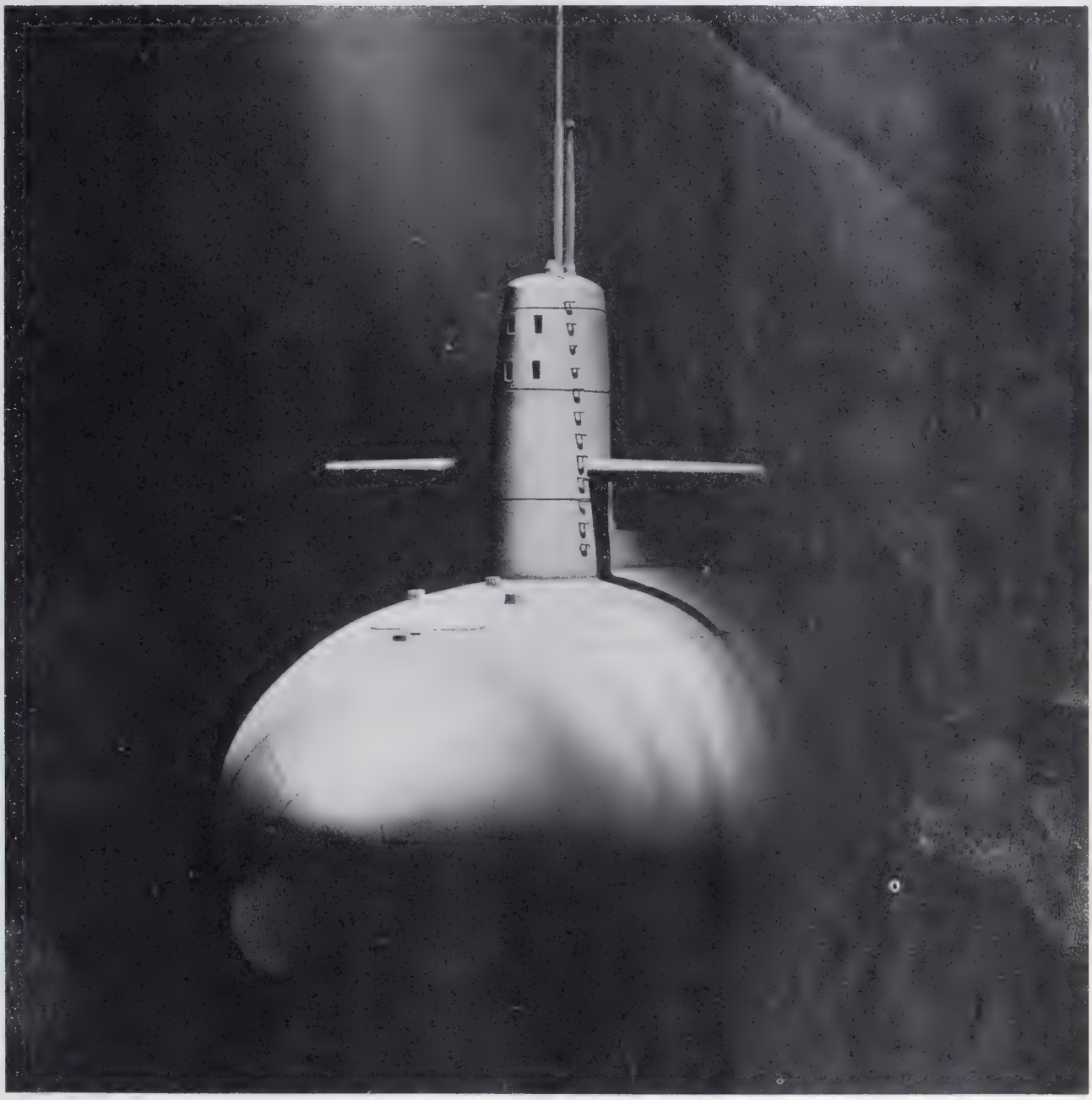
However, Weill and Robinson didn't get interested in a merger until Prudential's bid for Bache was announced. That morning Robinson called Lewis and said, "It's a new ball game now." Lewis reached Weill the next day at his hotel in Singapore and talked to him for 20 minutes abou the possibilities. Once actual negoti tions got started, Alva Way, then-vic chairman of American Express, an Howard Clark Jr., son of the forme chairman, took over.

What made Lewis think Weill, wh has a reputation for being fiercely in dependent, might agree to be a quired? "You're assuming that b cause Sandy is an entrepreneur, h can't work with anybody else. . . ."

Lewis concedes that the two me had a little trouble communicating first—Robinson is a reserved soutl erner, while Brooklyn-born Weill known for his bluntness. Still, say Lewis, the contrast could be a plus. wouldn't want to be married to som one just like me," he says.

When Forbes visited him soc after the proposed merger was an nounced, Lewis complained he w exhausted. Then he picked up one his three phones and made plans take his wife and four of his seve children to a hockey game th night.—**Jane Carmichael**

Want to see air conditioning that meets the demands of the silent service?



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How well will Sandy Weill's new kind of thinking sit with American Express Chairman Jim Robinson? "I'm amused by speculation that Sandy is nipping at my heels and trying to get my job," he answers. "I'm always on the lookout for the strongest, most competent people."

rumored unwillingness to develop a highly successful banking subsidiary because this could increase pressures to regulate the company as a domestic U.S. bank—something it wants to avoid at all costs.

Enter Shearson and its tough chief, Sandy Weill. "Have you even been to an American Express annual meeting?" asks Jack Cox, an economist at Purcell, Graham & Co. "They all look like they're right from the Harvard Business School, pinstripes and all. Weill is bringing a new line of thinking to the company's management."

How well will that new kind of thinking sit with Robinson? "I'm amused by speculation that Sandy is nipping at my heels and trying to get my job," he says. "I'm always on the lookout for the strongest, most competent people."

Robinson has worked in tandem once before. When he was named chairman, Roger Morley, a former executive v president at Gould, was named pr dent. They worked as a team. The qu aristocrat as chairman, and the outgo ex-accountant as president.

All went smoothly until the unsucce ful bid to acquire McGraw-Hill, whose board Morley sat. After a bit highly publicized fight, the merger through in January 1979, and Morley signed in December. "I don't kn where he is now," says an Amex exe tive. "Somewhere in Europe, I think."

People who have watched all this s pect that the Weill-Robinson combi tion can be dynamite if it works. I doesn't work? Then the gossips will h a field day.

Getting back to Bernard Shaw and beautiful lady. The unlikely bedding gether of American Express, Wa Communications and Shearson L Rhoades could conceivably bring fo one of the handsomest corporations America. Or it could end up with best features of neither. ■

Empire building

In 1979 Amex wanted to shell out nearly $1 billion for a "printed page" publishing company, McGraw-Hill, and failed to bring it off. But there's more than one way to construct a conglomerate. Since then Amex has quietly gobbled up a passel of highly innovative communications and financial service firms. The objective, however, remains the same: to capture U.S. consumers' dollars whether they are coming, going or staying home. The gamble is big, but so will be the payoff if the hoped-for "synergy" results.

Company principal business/location	**When acquired**	**Price (millions)**
American Express Direct Response direct-mail marketing/Great Neck, NY	4/79	not disclosed
Warner Amex Cable Communications cable-TV systems, programming/NYC	12/79	$175 (joint venture)
First Data Resources credit-card processing, authorization/Omaha	1/80	50
Southern Guaranty Insurance Co property-liability ins (rural markets)/Montgomery, Ala	9/80	19
Food & Wine magazine publishing/NYC	9/80	1
Mitchell Beazley Ltd publishing, video programming/London	11/80	10
WATS Marketing of America toll-free order taking/Omaha	12/80	1
Interstate Group of Insurance Cos surplus lines insurance/Chicago	12/80	54
New England Bankcard Association bank-card processing/Boston	3/81	under 10
Shearson Loeb Rhoades brokerage/NYC	pending	900

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See how easy it is to put our knowledge to work for you.

The knowledge business

Overcoming corrosion in a

Lockheed knows how.

The voracious process called corrosion consumes more than metal—it devours masses of money.

The nationwide cost of checking or controlling corrosion is now estimated at more than $80 billion yearly. Airlines alone have a $100-million annual corrosion problem.

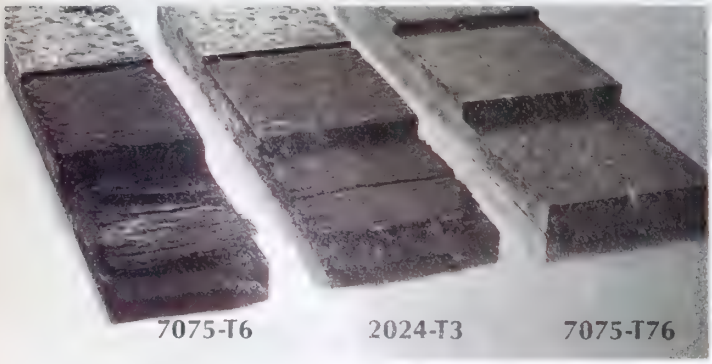
So here are some of the many ways Lockheed works to blunt, check, or contain the corrosion attack.

Making aircraft metals fight back.

When developing the L-1011 TriStar, Lockheed was determined to lessen that $100-million airline corrosion problem.

Thousands of Lockheed tests over 18 months, for example, led to the choice of a new wing-skin aluminum temper, 7075-T76. It's dramatically superior in corrosion resistance to widely used alloys and tempers like 2024-T3 and 7075-T6.

The value of that choice is clear. Wing skins using 2024-T3 for lower surfaces and 7075-T6 for upper surfaces—as m aircraft do—show severe corrosion in as little as two year After eight years in service, however, the L-1011 wing ski which uniquely use 7075-T76 on both surfaces, still sho almost no signs of corrosion.

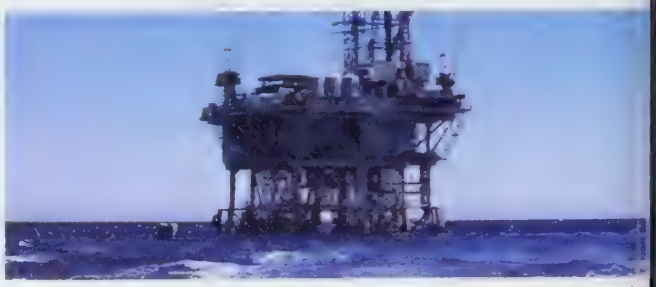


Three aluminum specimens, treated with different tempers, were exposed to the elements for nine months at Lockheed's corrosion test site. The results: 7075-T6 – deep, severe exfoliation, or 'leafing'. 2024-T3 – also deep corrosion. 7075-T76 – no corrosion damage.

With similar attention given to all parts, smallest to lar the L-1011 is by far the most corrosion-resistant large airc ever built.

Giving steel more sea-life.

Structures that live in the sea face a ravaging confronta tion: salt water against steel.



Today, however, Lockheed's advanced marine cathodi systems are effectively protecting offshore oil platforms, loading terminals, and other kinds of marine structures around the world. And these systems are absolute state-c the-art in such protection.

By feeding electric current to anodes on the underwat structures, the technique inhibits corrosive reaction, foil seawater assault, and significantly extends structural life.

And now Lockheed engineers are developing advance computer technology to plot the ideal amount and distri

80-billion combat zone.

ling a devastated landscape, 20-time enlargement of 2024-T3 aluminum sample (see small photo below) the corrosion damage from nine months of exposure to the elements.

protective current for each application. This will even greater savings by avoiding any overlapping of tion and by dramatically cutting down on inspection aintenance.

ng the sand out of blasting.

ardous to lungs and machinery alike, the process of asting metals to remove surface corrosion or old paint e coming to an end.

's because Lockheed has developed an advanced that uses frozen pellets of carbon dioxide—dry ice t and clean metal surfaces.

key to the technique is a Lockheed-patented system akes the tiny, solid pellets in the right size, then s them at the right density and pressure for the surface blast-cleaned. After striking the target surface, the e pellets quickly vaporize, and the vapor harmlessly tes. No infiltrating sand dust or other blasting agent remains. No cleanup of residual abrasives is required. blasting or toxic stripping agent harms the environ- r human lungs.

r needs no protective mask in clean CO_2 blasting operations.

Best of all, the process (1) is comparatively low-cost, (2) can clean complex machinery without the disassembly needed for sand-blasting, and (3) can be used on anything from ships and bridges to delicate electronic assemblies.

Keeping alloys fresh and safe.

Beneficial spin-offs from aerospace technology are not uncommon. One of them, a protective sealing process called Duralox, evolved directly from Lockheed's anticorrosion work on the L-1011 TriStar's aluminum alloys.

A two-bath chemical process, Duralox has proved remarkably effective on various anodic-coated aluminum alloys and thin anodic coatings exposed to even the toughest corrosive environments.

Usable anywhere corrosion is a problem, the process shows impressive beauty-keeping performance in new buildings that display large amounts of exterior aluminum sheet and extrusions.

One proof: Military and aircraft company specifications are aiming at 500 to 1,000 hours of surface survival in abusive salt-spray chamber tests. On many alloys, with very thinly coated surfaces, Duralox consistently betters 8,000 hours of such onslaught.

These are but a few examples of Lockheed's dedication to the fight against corrosion. When it comes to applying advanced technology to defeat or restrain corrosion—on land, in the air, in space, or in water—Lockheed knows how.

Lockheed

Supermarkets are far more important to A.C. Nielsen than the TV tube, and it is being challenged in both businesses.

Leader by legacy

By Larry Marion

THE STRENGTH OF A.C. Nielsen Co., the market research leader that is best known for its television ratings, grew out of a mistake by its founder. "Lever Brothers wanted to find out what kind of soap people were buying during the Depression," recalls Chairman Arthur C. Nielsen Jr., 62, the founder's son. "When Dad presented the results of his interviews with women, the Lever manager said he hadn't even got the Lever brands' sales figures correct. 'You overestimated Lux and underestimated Lifebuoy,' he told Dad.

"After thinking about it, Dad realized that a lot of women said they bought Lux because of its image as a prestige soap for movie stars, while Lifebuoy was only for people with b.o.," says Nielsen.

The experience was a revelation to the original Nielsen, an electrical engineer who was then venturing into market research from a business that had been evaluating industrial equipment since 1923. Consumer interviews didn't produce accurate information, he concluded. "Dad was an electrical engineer," his son recalls. "He used to say that psychologists ask questions to find out why people did things. That doesn't work. If you can put a number on it, then you know something."

That was the simple lesson A.C. imparted to his son, but lessons often go unheeded. Not so in Nielsen's case. Art Nielsen Jr. acted on that lesson, and as a result, the firm grew by using machines, not personal interviews, to determine which products were winning buyers' favor. Arthur C. Nielsen, who died last year at 82, ordered the first electronic computer for commercial purposes in 1947, based on his son's experience w the Army's machine during World V II. Nielsen installed the first electron chanical meters to accurately meas radio (1942) and television (1949) au ences, while broadcast executives w still weighing mailbags to determine dience size.

Today the company has massive co puter installations at its 68-acre he quarters northwest of Chicago, as wel in Boulder, Colo., Dunedin, Fla. . Juarez, Mexico. They are the heart . muscle of its business, which is far m the measurement of grocery and dr store sales than it is the recording television-watching. Nielsen last y had revenues of $493 million, 61% fr the grocery side, 10% from televis ratings. It had $29 million in net inco 60% from grocery, and 10% from TV fiscal 1981 it anticipates $600 mill revenues and $38 million net inco $3.40 per share.

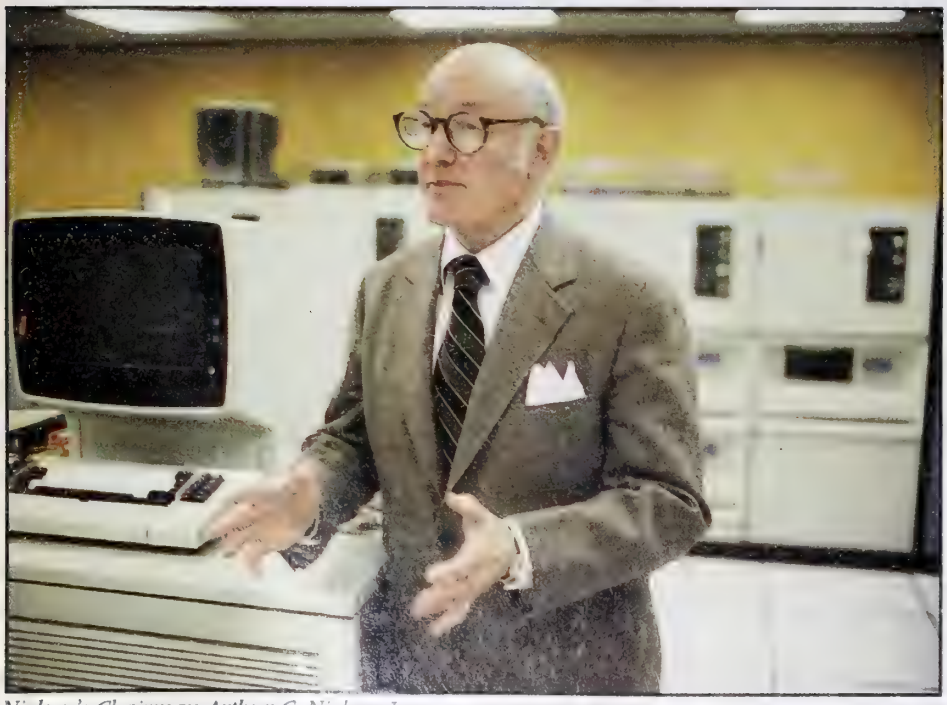
Because it was decades ahead of eve body else in the computerized moni ing of grocery sales, it leads that mass but fragmented field today. The Infor tion Industry Association estimates t $9.8 billion in annual revenues in 1 were produced by 1,023 companies gaged in what is broadly called mar research—half of them with revenue under $1 million.

The business is fast-growing—Niel expects sales and earnings to double in next five years after a fourfold incre over the last decade—and it is consoli ing, with giant newcomers challeng Nielsen's lead. Time Inc. entered mar research in 1966 with its Sales Area M keting Inc. operation; McGraw-Hill quired Data Resources in 1980. Con Data is pushing on the television side w its Arbitron subsidiary.

To remain the leader, Nielsen is bu ing upon his incomparable legacy. N sen's computer files, valued at $100 r lion on its books, contain 40 years grocery store inventories and decade television ratings. "Its equipment spe ing for grocery sales studies is bigger t the next seven companies' [after Tin SAMI] combined," says analyst Jar Dougherty of F. Eberstadt & Co.

And Nielsen, a business adminis tion graduate of the University of V consin, continues to spend for state the-art equipment and research to s ahead. Nielsen's capital budget last y was $35.6 million, up from $25.5 mil the year before. About 80% goes for co puter hardware.

In a bid to leap ahead of its comp tion in the collection of sales and m ket-share data for supermarket ite Nielsen is now buying computer ta from supermarkets equipped with e tronic scanning cash registers. U now, Nielsen only collected its mar data by sending its auditors around to



Nielsen's Chairman Arthur C. Nielsen Jr.
Son urged, father listened and bought a computer.

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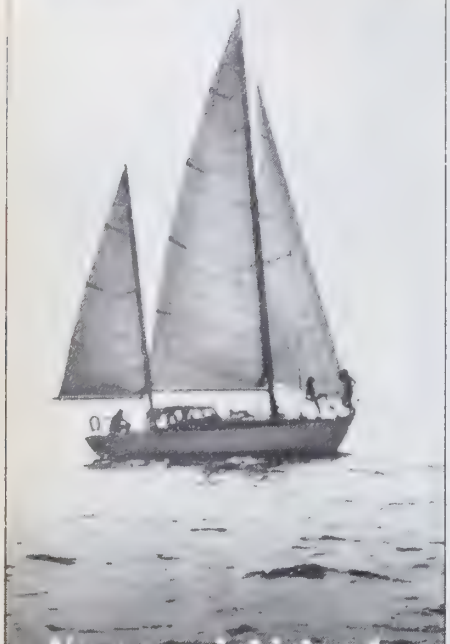

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stores to take a bimonthly inventory. Its competitors rely on warehouse inventories or consumer interviews.

With the scanner tapes, Nielsen this summer will introduce weekly reports on product movements from 100 supermarkets around the nation. "Daily scanner data can answer problems like, what was the effect on sales of a weekend special, which used to get lost in the 60-day average," says Nielsen, who has been running the company since his father began to withdraw from day-to-day operations in 1965.

Nielsen has already started to extrapolate the speeded-up sales reports into a national rating for grocery products, akin to the national Nielsen ratings on which television programs, and advertising dollars, rise and fall. At the urging of customers such as Procter & Gamble, Nielsen tried such an extrapolation last year, but it wasn't comprehensive since it lacked small-store data. President Eugene Harden explains that clients don't yet know what they want out of the new information. "We're generally at the forefront of new technologies," he says, shaking his head. "This time we may be a little too far ahead."

Clearly the company is taking the challenge in its main business seriously, far more seriously than it regards an aggressive campaign by Arbitron to beef up its competitive stance in television ratings. At a cost of $23 million, Arbitron intends to have its TV set monitoring meters in 7,200 homes by 1984. That would seem to give it a powerful edge over Nielsen, the name that made rating a household word. Nielsen is directly wired into 1,200 homes around the country for its national sample, and has another 1,700 or so in four big cities (New York, Chicago, Los Angeles and San Francisco) for local ratings. An additional 2,400 homeowners write diaries, with the more detailed information used to establish national demographic profiles. Nielsen has a back-up meter to check their answers. Won't Arbitron's additional homes produce a more accurate national sample and win the business of television stations and advertising agencies? (Today, a single point in the Nielsen ratings means thousands of dollars per minute in ad rates, depending on the network.)

Nielsen's head statistician, Edward A. Schillmoeller, thinks not. He concedes that if the Nielsen national sample were doubled, the margin of error would shrink by 30%. But he says that currently, "there's a 90% chance of our coming within two percentage points of the 'true' rating on just the metered service." Cutting that 2% margin of error by 30%, he explains, would make a 20 rating into a 20.6. Nielsen isn't afraid that its 1,600 subscribers will go elsewhere.

Nielsen has been making acqu tions to broaden his company's base recently bought Dataquest, a sm $3.8 million (revenues) consulting market research firm for the compu industry. It has owned Petroleum In mation, a leading oil well drilling ord keeper, for 13 years. "We're try to get into big and growing inc tries," says Nielsen of his acquisit plans. PI contributed some $51 mill of Nielsen's revenues last year, up fr $37 million in 1979.

Another $55 million of revenues cor from the Nielsen Clearing House Serv

At a cost of $23 million, Ar tron intends to have its TV n ters in 7,200 homes 1984. . . . Won't Arbitron's a ditional homes produce a ma accurate sample and win t business of television statio and advertising agencies?

the dominant factor in sorting the cer off grocery store coupons. Nielsen s $800 million worth of grocery coupor year, sending checks to the retail roughly one month before it is re bursed by the manufacturers. In time stable interest rates, fees for the sort and banking services made the Clear House the most profitable part of company's operations, with an 18% tax profit margin. But last year short-te interest costs soared 55%, to $8.4 r lion, and margins dropped to 10.4%, $5.7 million. Nielsen's response was install more automation at its Clint Iowa coupon-sorting facility and imp surcharges on its customers.

That response was right in line w the precepts of the original Art Charles Nielsen, who favored fiscal c servatism. Even while Art Jr. built up computer bases, Nielsen has no lo term debt, not even a mortgage.

But A.C. Sr. believed in sharing wealth. Almost all of Nielsen's 19, employees here and in 23 other count get annual profit-sharing checks. It i policy that A.C. Jr. seems certain to c tinue. "My bonus last year was at le three times my salary," says Niels somewhat casually referring to a bo of $463,000 on a salary of $125,000. addition, he controls 1.7 million sha of the common stock (Nielsen and fam trusts control 56% of the voting pow and received $40,000 directly in d dends last year—as well as a tr amount he refuses to disclose.

That's quite a lot of money, but p haps not too much if A.C. Jr. and his Christopher, 32—currently seeking M.B.A. at Harvard—can keep the fam company ahead of the pack in the rapi expanding information business. ■

This announcement is not an offer to sell nor the solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

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April 24, 1981

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Business can get so bad it begins to look good. That hope keeps Akzona going these days.

Down so long it looks like up from here

Akzona boss Claude Ramsey with a spool of polyester
Is it springtime again for the man-made fiber business?

By Jean A. Briggs

LIFE SHOULD HAVE BEEN SWEET Claude Ramsey. Tall and h some with an easygoing man he climbed the corporate ladder quic In 1967, when he was 42, Ramsey came chief executive of Akzona Inc. $1.1 billion-a-year company is headq tered in Asheville, N.C., a city know its balmy climate. At a time when n men are still struggling to reach a l rung on the ladder, Ramsey was at very top. He had bosses, to be sure, they were far away and not incline meddle: Akzona is the 66%-owned a ate of Akzo N.V., the $6 billion-a- Dutch chemical and pharmaceut company.

But life is more than clean air, mountain breezes and faraway bos Akzona's chief product is man-mad bers. Not long after Ramsey took o the synthetic fibers business collaps a victim of massive worldwide ove pacity. It has been flat on its back for seven long years.

Staying in, however, has been t matic. Fortunately, Akzona had begu diversify—into electrical equipm nonfiber chemicals, pharmaceuticals salt—before the crisis hit. So earn weren't entirely wiped out. But t have been poor: Return on equity averaged under 4% for the past six ye and debt as a portion of total capital nearly doubled to 44%. In 1980 the c pany earned a mere $4.9 million, aft $5.3 million loss on fibers. In the quarter of this year, profits fell by ne 50%. There has been no bull market Akzona's long-suffering minority st holders. Its shares now sell for about book value and the dividends are lo than a decade ago.

There may yet be a happy ending. mand for fibers has not picked up, R sey explains, but so many producers h left the business that the survivors m soon make money again. It wasn't to be a survivor. "We had 50 years' ex rience," Ramsey says. "We didn't w to get out; we didn't know how to get if we wanted to."

Ramsey, who considered going advertising before joining Akzona, op a manila folder containing analysts' ports, most of them mildly optimis and a memo. It details the state of industry—which producers have left business, which products they have making, which plants were closed d and which plants are still operating. picture is sobering.

In November 1974, 22 companies w producing 74 fibers; today 15 compa are producing 51 fibers. Overall, capa has changed little. But it has decre significantly in key products such as dustrial polyester and rayon staple. zona shut two rayon filament pla

ving 4,000 people out of work. Du closed half its industrial polyester city. In January Monsanto exited the e polyester business. The survivors hed easier.

pply and demand, Ramsey believes, oming into balance. That means s will operate closer to capacity they have for years, and Akzona— with competitors like Du Pont and hese that are still committed to fi- -will make more money. "We have been able to raise prices lately," Ramsey, noting, though, that most s today are still lower than they in 1974.

e industry's crisis came, in fact, be- demand for synthetic fibers had growing between 15% and 20% a Ramsey recalls that in the Sixties early Seventies customers were ea- buying everything that could be iced and prices were strong. That

nkly [the newcomers] n't know what the hell they e doing. Marketing fibers sophisticated business. sell not only to your cus- er but to your customer's omer and to his customer his customer."

raged outsiders such as Phillips Pe- m and Monsanto to move in, and invested in big plants to realize mies of scale.

any of them didn't know what the they were doing," says Ramsey. keting fibers is sophisticated busi- You sell not only to your customer your customer's customer and his mer and his customer." Akzona, for ple, must convince a textilemaker, Burlington Industries, to produce a using its fiber. Then a garment- r such as Jonathan Logan or Leslie nc. must want to use the fabric. lers must stock it and, finally, con- rs must want to buy the product.

nsey cites Akzona's long success Crepeset nylon, a trademarked ct used in women's undergar- s. The company's strength, he says, on this marketing skill plus the parent's research. "Our strategy," ins Ramsey, "was to be in areas vould allow us to draw on the tech- ical strength of Akzo. It does mas- amounts of research and develop- that produce a constant stream of products."

l, if better times are ahead for fi- won't the cycle of overexpansion all over again? "Not for at least four e years," says Ramsey. "Then, who s? There will be a new generation nagers who haven't been through we've been through." ■

In 1973 Springs Mills bought into the food industry. Now disappointing results are causing it to sell out. Along the way, the company learned to love its basic textile businesses.

Frozen peas or frozen profits?

By Carol E. Curtis

WHEN WALTER ELISHA JOINED Springs Mills, Inc., the South Carolina-based textilemaker, as chief operating officer just over a year ago, his first job was to evaluate the company's $143 million-a-year frozen food business. Seabrook Foods was Springs' only major diversification outside textiles and home fashions. The company, which markets such well-known brand names as Brook Farms, Seabrook Farms and Snow Crop, accounts for close to a fifth of its parent's sales. Since Seabrook was acquired in 1973, however, Springs had plowed $65 million into the business, which earned a total of just $14.5 million pretax over the seven-year period.

"We weren't bringing leadership or expertise to the business," Elisha, 48, states frankly. "And we overestimated the competence of some people." That was part of the story, but there was more: When Springs bought Seabrook, it could hardly have foreseen that the Arab oil embargo was months away. Frozen food, a huge energy consumer, was hit hard by the quadrupling of world oil prices. Too, a large chunk of Seabrook's business was in commodity vegetables, a low-margin business in the best of times.

Walter Elisha, Springs Mills' new chief executive
Thawing out the earnings stream with a selloff of frozen foods.

Is management the same as leadership?

The short-term success of an enterprise requires management with sensitivity to subtle changes in the daily supply and demand picture and the experience and ability to respond quickly.

The long-range success of an enterprise depends on leadership with vision to seek out new opportunities and ways to increase productivity through long-term investments and commitments.

If you rely solely on leadership, your profitability may suffer. If you rely solely on management, your productivity may suffer. Each needs the other and a successful business needs both.

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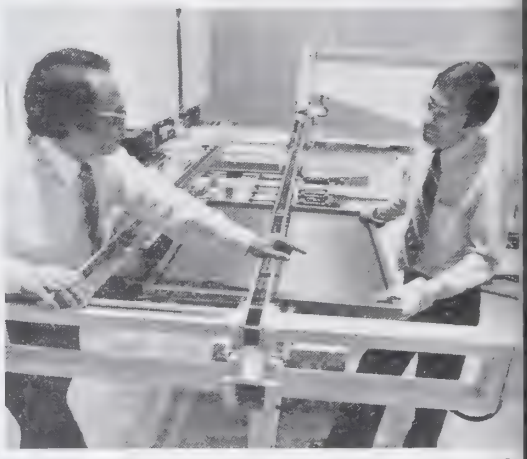

Wiedemann Division managers inspect steel panels formed on the new Wiedematic P-4 Panel Bender. The fully automatic machine is capable of producing more than 100 finished panels per hour with as many as seven bends per side.

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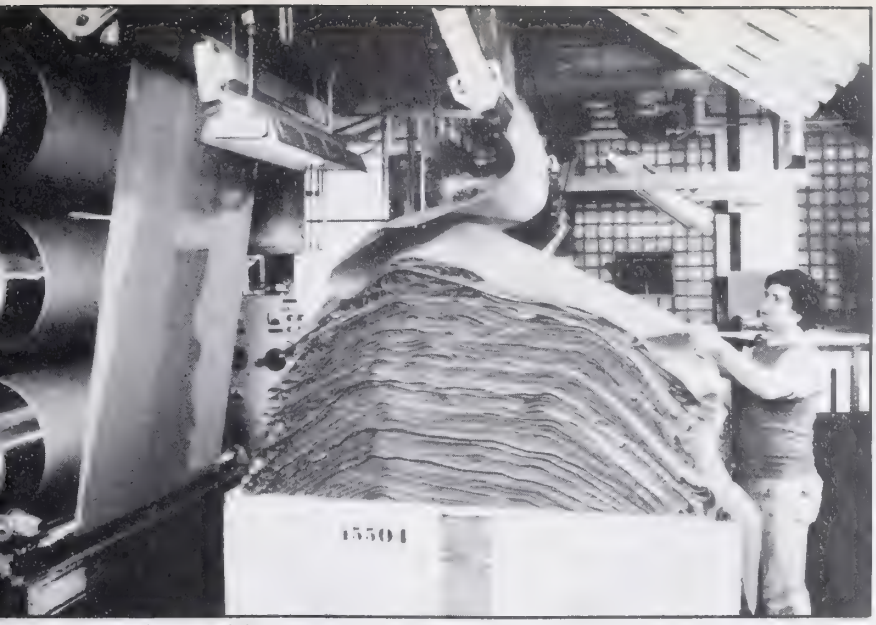

ng a polyester/cotton fabric at a Springs Mills plant
textile industry what McDonald's is to fast food.

ough Springs' sales rose by 18% to $800 million last year, earnings m $35 million to $11 million. The : an estimated $21.5 million loss zen foods, which was moved into iscontinued operations" column.

Apr. 16 the board named Elisha xecutive officer, and his first order iness was selling Seabrook. In the takes world of corporate dealmak- can seem decidedly pedestrian to that your basic business is the ne you should be in. But that is Elisha wants Springs to be per- . Without frozen foods, he aims to sales and more than double earn- ithin four years—all from textiles lated businesses.

e 1887 Springs has been weaving for use in bedclothes and cloth- Most of the company's 35 plants out vast quantities of the 65% ter-35% cotton mix that is to the industry what a McDonald's ham- is to fast food. Springs ranks fifth in the industry and has a dominant t share in its three chief business- dclothes manufacture, lightweight l fabric and retail and specialty .

squeeze higher earnings out of Elisha plans to concentrate on ting and technology, two areas ich Springs has long excelled. In xties Springs was the first textile ny to move from all-cotton fab- a polyester-cotton blend. The ? Polyester eliminated ironing. since it was made completely petroleum by-products, using ter improved profit margins to Despite soaring oil prices, this is rue today, with polyester selling cents a pound, *vs.* 95 cents for . Elisha is now experimenting with % poly-20% cotton blend sheet, which will boost profits accordingly.

Beyond that, the emphasis is on efficiency. "We may not have the lowest price, but we'll be the lowest-cost producer," says Elisha. At the moment, some of Springs' plants are running flat-out, seven days a week, 24 hours a day. Springs was the first U.S. company to use superefficient Swiss-made air-jet looms, which virtually eliminate fabric seconds. Now Springs is experimenting with laser beams for inspecting cloth. "They don't get tired and they don't go on coffee breaks," says Corporate Vice President J. Marshall Doswell.

Attention to such fundamental—if unglamorous—details is bringing Springs new respect on Wall Street. Though its first quarter was off slightly, profits for the balance of the year should be up modestly from last year's $3.64 per share, with the real gains coming next year. Edward Johnson, who follows Springs for Prescott, Ball & Turben, sees 1982 per-share earnings soaring by 50% over estimates for 1981, to $6. Such estimates have pushed the company's stock, which never traded above 19 last year, to a recent high of 26.

Elisha, meanwhile, expects to realize perhaps $80 million in cash from the eventual sale of Seabrook. With part of that nest egg, he would like to buy another closely related company, but a firm in home fashions rather than apparel. He feels the market for bedroom and bathroom fabrics will pick up with housing demand.

But Elisha is in no hurry. "I'd rather talk to people the company used to do business with and find out why they're no longer customers," he says, adding: "When half of senior management is focusing on making deals, who has time to worry about whether the customer is satisfied?" ■

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Laphroaig, pronounced "La Froyg," is a single malt Scotch whisky from the remote island of Islay in the wind-swept Western Isles of Scotland. This Scotch whisky has an exceptionally rich and smoky flavor that makes it particularly suited for after dinner or late evening enjoyment. Laphroaig is best savored neat or with a little cool water.

90 Proof. Imported by Julius Wile Sons & Co., Lake Success, NY

Julius WILE
LAKE SUCCESS, N.Y.

Intellectics, a contrarian consulting firm, doesn't think that outsiders should tackle a company's internal problems. Instead, it gets solutions from employees.

The corporate truth squad

By Steven Flax

PETER MINNOCK-STEWART is a consultant—but hardly a conventional one. He thinks that hiring outside professionals to recommend corporate changes is rubbish. Says Stewart, "The person who puts on the right rear bumper bolt on an automobile assembly line knows more about *that* than all the consultants on earth." Instead, Intellectics, Stewart's four-year-old Hackettstown, N.J.-based firm, tries to help companies solve their own problems with their own people. "Organizations typically inventory brainpower instead of putting it to use," he explains.

Intellectics' guiding principle is that the people within an organization know the most about how to make it run better. Conventional consulting, Stewart believes, badgers and manipulates employees with questionnaires, focus group interviews and motivational techniques until they subscribe to the preconceived notions of either their bosses or the consultants. Worse, this often goes on in an atmosphere where employees feel that their jobs are endangered. This kind of consulting does nothing to open up internal communication and discourages employees from speaking their minds.

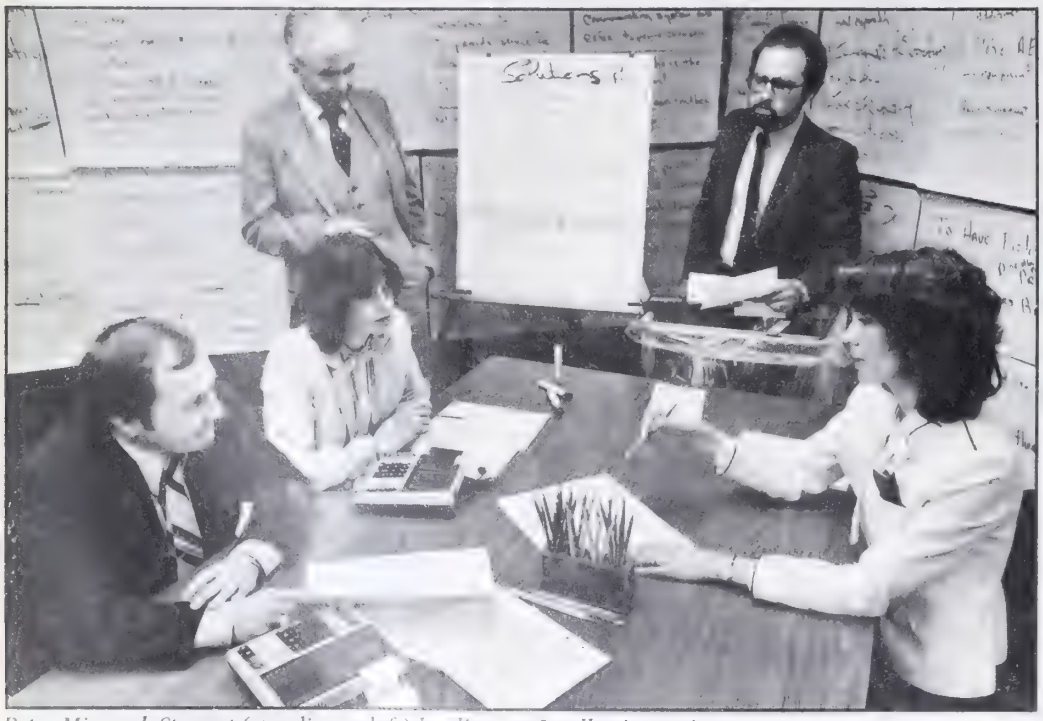
Intellectics, which includes New Jersey Bell and St. Regis Paper among its clients, does things differently. Using everything from paper shredders to secret ballots, Stewart and his associates put employees in a protected environment and challenge them to solve their company's problems. At Intellectics' sessions, away from the office, staffers can be outspoken, knowing that the re Intellectics later submits will be honest and anonymous.

Unlike some of its competition, I lectics doesn't try to psychoanalyz subjects or to treat them in a cli way. There is no behavior modifica or role negotiation with superiors stead, Stewart, a bluff, engaging I man, encourages employees to offer gestions and criticisms. Then he sophisticated statistical techniques allow staffers to evaluate their own i "A given company's work force is a of intellectual power," says Stewa 57-year-old former military intellig officer who founded Intellectics af 20-year career in advertising, whic cluded N.W. Ayer and B.B.D.O. " not avail ourselves of their capaciti

All this seems sensible enough. H ever, such candor can threaten ins managements. Result: The corpora that come to Intellectics for help, Stewart, "are either healthy enoug withstand such self-examination sick that they can no longer avoi cure." One client is Merck & Co emphatically healthy company w according to one executive, "peopl less and less reluctant to sign names to nasty letters." Merck rec chose Intellectics to find out fro managers how to improve salary an formance evaluation policies.

"We wanted to pay for perform more effectively," says Walter R. sin, Merck's vice president for hu resources, "and we thought that the way to get employees to unders personnel policies was to enlist help in formulating them." Some o findings were predict There was a call for a co living adjustment for man making over $40,000 a yea the test group). But the ses also produced self-criticis garding the way partici conducted personnel ev tions—too subjective. As sult, Merck's top huma sources people realize that scientious handling of poli supervisors is more impo than rewriting policy man Merck is now committe training its supervisors better in important m like personnel evaluation, slighted by busy executive

That training, of course, make Merck's compens programs that much more tive. But is such highly re and painstaking intervie worth the $50,000 mini fee that Intellectics nor charges? Let him who has hesitated to speak his mi his boss cast the first stone



Peter Minnock-Stewart (standing at left) *leading an Intellectics session*
Brains are token assets—not real assets—in most organizations.

Scotland poised for a new decade of growth

North Sea oil assures energy supplies into the next century.

y Perman
tant Editor, *Sunday Standard*

For a country which has been forced apt to change from the beginning history, the 1980's promise what e are calling the beginning of omic wealth for Scotland. The Scots oted for being hardworking (some d say they are workaholics), stent (some would say stubborn), ul with money (all those old jokes a basis in truth). They are going to all their traditional virtues, as well the new technological skills they acquired over the past decades loping a thriving electronics industry. Before the end of this year, Britain each oil self-sufficiency and Scotland, e the oil comes ashore, will start ap the monetary benefits which accrue from new investment rtunities, new companies, new and new skills which are needed to ce this industry. About 60,000 Scots lready employed directly in the oil stry, or in the services which are ed onshore. Those numbers will le by the nineties.

Scotland has been an industrialized try since the Industrial Revolution. Scottish workers who once mined and forged steel and built ships have e a smooth transition to the Techno- al Age, and are now working in ronics, precision engineering and nicals and petrochemicals. Former miners have been retrained as ers. Steelworkers make pharmaceutical drugs. Greenock on the Clyde, for example, was known for a hundred years for its shipbuilding. Today, more people work in the electronics industry than in the declining shipbuilding industry—assembling microcircuits for National Semiconductor, or data terminals for IBM.

Investment in Scotland

As a trading nation, Scotland exports proportionately more than Britain as a whole—around 43 percent to the rest of the U.K., and a further 23 percent to the rest of the world. Since the U.K. is a member of the European Economic Community, Scotland is also an attractive place from which American companies can do business with the Community more profitably than they could from their home base.

Ownership of Scottish companies is by no means a domestic affair. Companies like the Distillers Company, Burmah Oil, Coats Patons and the Weir Group, are registered and owned in Scotland, but a large proportion are controlled either from London or overseas. The London-controlled group include Ferranti, BL Vehicles, GEC-Marconi and John Brown Engineering; the overseas-controlled ones include General Motors, IBM, National Semiconductor, Motorola, Cummins Engines, Brown and Root, Polaroid, Hoover, Talbot, Michelin, Hoffman-La Roche, Mitsubishi and Nippon Electric Company.

Companies from abroad have been investing in Scotland since the end of the last century, but since World War II, the British Government has consciously encouraged foreign firms, particularly from the United States. There are 260 overseas-based companies doing business in Scotland. Thirty of those companies are U.S. electronics companies of which eight out of ten are currently undergoing expansions. In electronics alone, new development and expansions by overseas companies are running at around $400 million. Scotland now has the second highest investment per capita from overseas:

U.S. Manufacturing Investment ($ per capita—1977)

Eire	277
Scotland	248
Belgium/Luxem.	245
U.K.	159
Netherlands	145
West Germany	114
France	78
Italy	35
Denmark	28

Overseas companies are attractive to Scotland, not only because they provide much-needed jobs, but they tend to invest more heavily than U.K. firms, they export more, they achieve higher rates of productivity and they are more profitable. A relatively high proportion of the national income is reinvested in capital improvements.

Energy

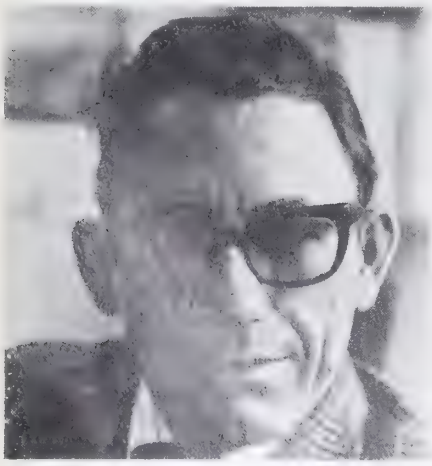
Oil from the North Sea will bring Britain self-sufficiency by the end of this

Don't knock the title... until you've read the book

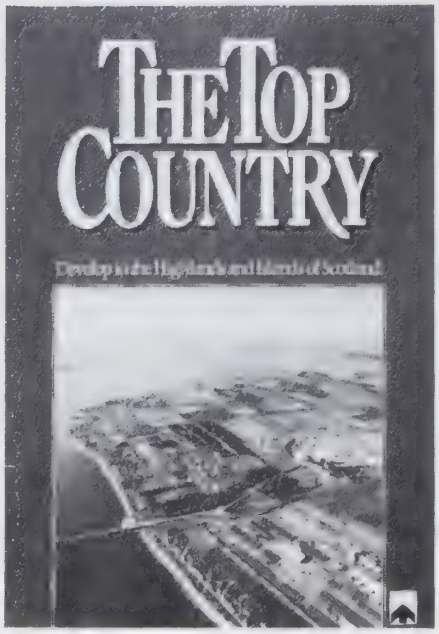
The Top Country is the Highlands and Islands of Scotland–one sixth of the landmass of the British Isles. The Top Country is also the name we have earned from investors and developers who have set up operations in our area.

Our booklet (same name again!) details the help the Highlands and Islands Development Board can give to incoming manufacturing industry.

It provides hard facts: and includes a collection of success stories from people who are already established here. We have helped them with finance –grants, low interest loans and (by agreement) minority shareholdings; with the latest in factory accommodation, grant-aided or on low-cost leases; and with all-round support and advice.



"My business is finding faults, but I couldn't find fault with The Top Country". Dan Knox.



We can finance up to 70% of your total project cost and help you find loyal trainable labour.

Your business can be anything from electronics, or other light industry serving the huge European market, to oil or petrochemicals. We set no curbs on good ideas–nor are we slow to recognise them.

Dan Knox, one of a number of American friends we have made over the years, discovered the Top Country in 1974.

Dan Knox was Vice-President of the Vu-Data Corporation of San Diego in the early seventies and was interested in setting up a plant to service EEC and Middle East markets. Now operating under the name Datascan, Dan manufactures oscilloscopes and electronic games in Inverness and enjoys the EEC preferential tariff system. As he says, he got other benefits as well.

"The Highlands and Islands Development Board helped to finance the project with a substantial grant. They also provided a long-term loan towards the cost of the new plant and arranged for temporary premises while it was being built. They came up with useful advice on markets, finance, labour and ancillary services, plus direct support in product displays at trade exhibitions".

U.S. companies

The Highlands and Islands of Scotland continue to enjoy oil and gas related economic development. Multinational US companies, such as Brown & Root and J. Ray McDermott, are firmly established in the area and now have two of the largest offshore platform fabrication yards in Europe. There is a lot of activity in the Top Country–it continues to grow, but there is still ample room for top people to take advantage of our help.

Start by contacting us for a copy of "The Top Country" and we will mail it to you by return. Or, better still, ask for a meeting with one of our representatives who make regular visits to the United States. Write to:

Keith Farquharson, Director of Industrial Development and Marketing, **Highlands and Islands Development Board, Bridge House**, 27 Bank Street, **INVERNESS IV1 1QR, Scotland, UK. Tel: (0463) 34171. TELEX 75267.**

ice place to do business.

r and although Britain is unlikely to a major exporter of high quality crude much of the output is already ex- ted so as to ensure a balance of erent types of crude oils for U.K. neries. Energy supplies are assured the next century.

The U.K. government benefits via es and royalties, but the new oil wealth s not mean cheap energy. Successive ernments have taken the view that North Sea oil must be sold at the pre- ing world market price. While this is ssuring to the oil industry, Scottish ustry will need to increase productivity emain insulated from the effects of ng energy costs.

Scotland has large reserves of other ns of energy. It is a major producer oal, most of which is used in power ions. Natural gas, from North Sea ds, is piped through a national grid a new gas-gathering pipeline will rtly begin construction. Electricity is vided by two State-owned boards, ough some large industrial concerns ntain their own. Scotland is, in fact, exporter of electricity to England and es. There are three commercial lear power stations.

ochemicals

The North Sea has also provided opportunities in petrochemicals. In ition to their use as fuel, oil and gas vide the basic feedstocks for a wide ge of processes. A partnership veen Royal Dutch Shell and Esso, ow building a billion dollar gas aration and processing plant near nburgh, to produce butane and pane for export—mainly to the U.S. nd ethane, which will be cracked on to produce ethylene, the basis for y plastics.

Dow Chemicals is now bidding to struct a facility on the Cromarty n, and Occidental Oil, which already a crude shipment terminal in the ney Islands, plans a similar plant art of its $1.5 billion investment program in Scotland. Conoco, which is also a strong presence in the North Sea, has announced a plan to build an ethylene plant.

The twentieth century has been one of change for most parts of the world and many nations have been unequal to the challenge. Scotland is a country where the national character has proved an invaluable natural resource. Many of today's forebears earned an independent place for themselves in the world outside Scotland. As it approaches the 21st century, Scotland is making its mark in the world from its own shores.

Tourism

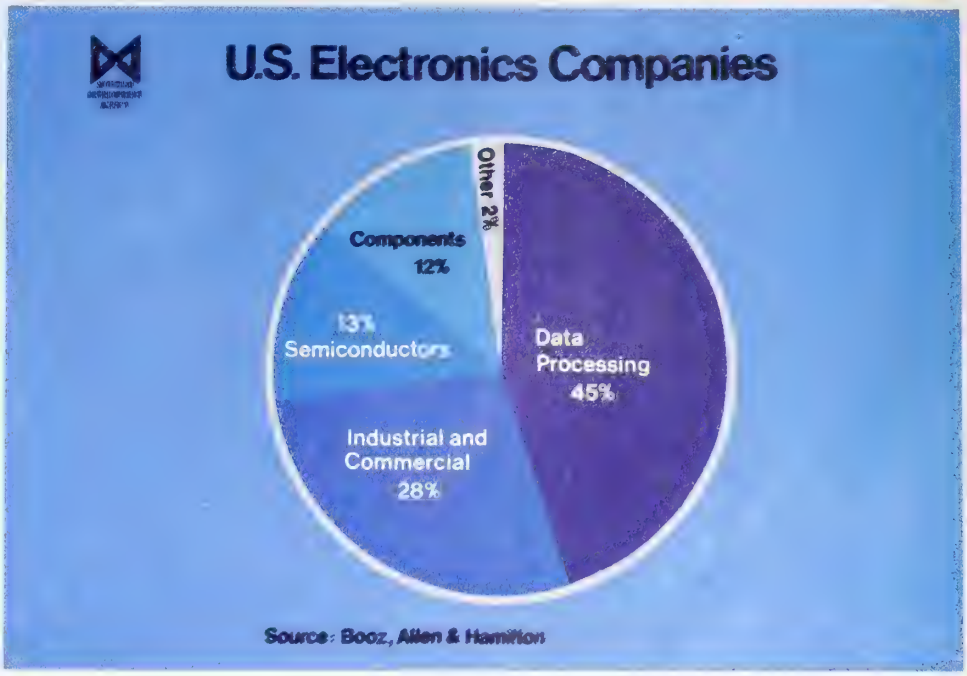
Few countries can soften bustling industrial activity with such spectacular, tranquil countryside. Scotland is a small country in size but big in the quality of life. Whether one's idea of Heaven is standing for hours thigh deep in the slow running waters of a salmon stream with only birds for company, or walking one of the over 400 major golf courses before a drink in the local pub, most likely a locally-distilled whisky, civilization to a Scot means getting out in the glorious countryside and enjoying the natural beauty and space for which this country has always been renowned. Skiing at Aviemore has thrived since the 60's and expansion plans are now underway, providing for extended facilities and hotels and time-sharing apartments. In the recreational boating business, sailing and power boats are offered for charter.

The $1.5 billion tourism industry now employs over 110,000 people. In 1981 which has been designated the Year of the Scot, special activities will culminate in a spectacular International Gathering in Edinburgh.

The Government offers a number of incentives to develop tourism. Grants of up to 30 percent are available for improvements to small hotels and the Scottish Development Agency spent $5 million clearing, restoring and replanting a site north of Oban for a holiday village and marina. The government is also assisting Commonwealth Holiday Inns of Canada with a $25 million hotel in Glasgow, due to open in 1982.

THE AMERICAN INVESTMENT IN SCOTLAND

Despite their considerable financial clout, their power in the world, and the program of investment and construction they conducted in Britain south of Hadrian's Wall, the Romans left no appreciable mark on Scotland. It has been a different story for the Americans. Investment by U.S. companies in Scotland in



the past century now tops $4 billion, and over 200 companies have established operations there.

Since World War II, American companies have made a vital contribution to Scotland's industrial modernization, now providing employment to almost 16% of the workforce—largely in high technology industries. U.S. firms export 49% of their output, and account for a third of Scotland's total exports. They also tend to show a better growth rate than the average Scottish firm.

Most of these companies, since the 1950's, have been in science and technology growth markets such as electronics, plastics, and pharmaceuticals, and since 1970 with the discovery of North Sea oil, in oil and gas related industries.

Typical of the kind of company which chooses Scotland is Baker Oil Tools, which services the oil industry. They started manufacturing in Scotland in 1973, and since then have expanded their facilities three times. "We came to Scotland not so much to get into North Sea oil as to make use of local skills," comments Ted Lembcke, Director of Manufacturing in Houston. The Cummins Engine Company, of Columbus, Indiana, which manufactures diesel engines, has been in Scotland for 22 years, and 90% of its workforce has undergone special training since quality control is vital to the company.

Digital is expanding in Scotland, five years after it first set up operations there. And Hewlett-Packard, which has been in the country for fifteen years, has 700 people designing and manufacturing test instruments for the communications field.

During the last 18 months, overseas companies have announced some $400 million either in expansions or the establishment of operations in Scotland. Apart from the ones noted, these include Levi Stauss, which expects to create some 2000 jobs over the next five years, and National Semiconductor, which promises 1300 jobs in the same period.

Recently, the Nippon Electric Company has decided to bring the assembly of advanced LSI circuits and wafer fabrication to a new $100 million plant which will be in operation by 1982. This is the fourth major Japanese company to pick Scotland, and its progress will be closely monitored by the neighboring U.S. companies, ever mindful of the competition.

Electronics in Scotland's Silicon Valley

Because Scotland now has the largest concentration of electronics companies outside the U.S, many opportunities exist not only for more of these companies, but for the companies which will service them: printed circuit board manufacturers, suppliers of process equipment and precision plastic moldings, chemical and plastics processors, metal and piece parts fabricators and suppliers, as well, of course, as software producers.

A lot of small businesses have been spawned from the U.S. giants—started either by former employees, or by enterprising Scots who saw a lucrative market opportunity. Prestwick Circuits, which was established ten years ago, now sells more than $12.5 million in the U.K. and continental Europe. In the kind of switch dear to Americans, the company has recently taken over a printed circuit board manufacturer in Dallas.

The industry, which is estimated at $750 million, is broken down as 45 percent in data processing, 28 percent in industrial and commercial applications, 13 percent in semi-conductors, and 12 percent in components. The remaining 2 percent is split among consumer and communications applications.

Opportunities for U.S. companies to invest in Scotland in the burgeoning electronics market are many. Most lucrative areas are seen as data processing, word processing and industrial controls. These are followed by copying, test and measuring instrumentation, microwave technology, integrated circuits and optoelectronic devices. A significant market also exists in medical technology and devices.

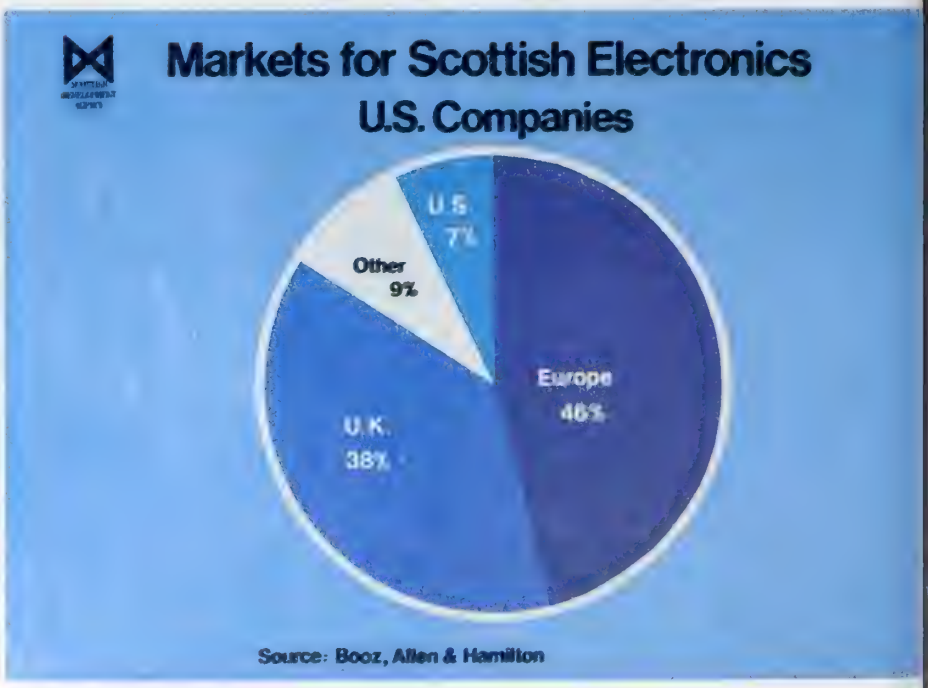
The Workforce

For a country which since the Industrial Revolution has been known for its engineering tradition, the workforce has adapted remarkably to the precision

Industry and Wolfson Institute cooperate on research.

skills needed to assemble electronic components. It has, thus, been a happy transition to the electronic age. Talk of the workforce invariably includes reference to labor relations, to strikes, to the alleged industrial disputes. One of the facts which Scotland has had a hard time communicating to the rest of the world is that Scottish workers are highly rated particularly by the U.S. companies in Scotland.

According to a report by PA Management Consultants, none of almost a hundred companies interviewed had experienced any strike activity since January 1978 and 93 percent had been completely strike-free for the previous five years. An equal percentage were unaffected or only moderately affected by strikes. The average work loss through industrial disputes was less than one day per worker per year, and more than half the companies in Scotland reported high productivity, which puts Scotland in the top twenty five percent of international statistics. Over two-thirds of American-owned companies are unionized, and 86 percent consider the presence of unions no detriment to their



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operations. Few of the electronic companies have union operations, however.

Education and Training

In order to adapt to the fast-changing, technological and industrial world, countries must see to it that their future generations not only receive a good basic education, but that facilities exist to train them to get jobs, and, later, to gain skills which are attractive to the industries which supply the economic base.

The Scots have been known historically for their intelligence, skill and invention. This enviable reputation is largely due to the fact that Scotland pr duces proportionately more graduates than any other European country. The are eight universities which graduate 8,000 students a year, nearly half of them with degrees in science and electronics or engineering subjects; and there are 55 technical and further educ tion colleges offering full and part-time courses related to the electronics indus try. New chairs in microelectronics ha been established at Dundee and Edinburgh universities. There is a prolifera tion of courses available both at colleg and in the workplace, and a governme grant plan enables high technology fir to recover up to 80 percent of the cost these.

To Americans, the interface betwe industry and academia is of great bene fit. Scottish educational institutions ha taken a lead by establishing courses which are relevant to the requirements of industry, and they have set up research and development facilities which cooperate, in particular, with the electronics industry.

North Sea opportunities for U.S. oil and gas supply companies.

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Write to: Strathclyde Regional Council Industrial Development Unit, Dept. IF5, 21 Bothwell Street, Glasgow G2 6NJ, Scotland. Or telephone 01144-41-221 4296. Telex 777237 Ans Back SRC V.

Oil: The New Sheiks

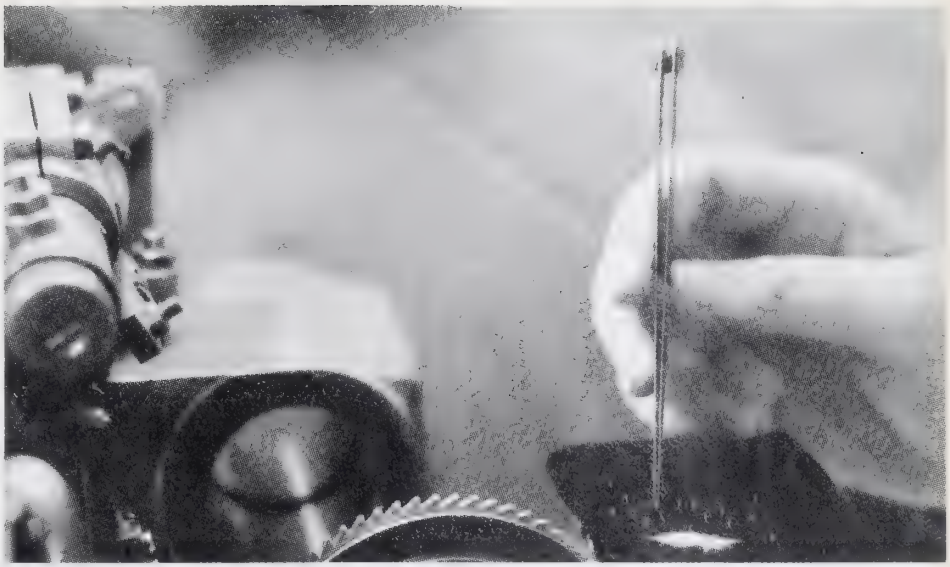
The oil dollars now available to the canny Scot will not be spent on Cadilla and gold watches. The money is being ploughed back into building support fo an industry which could double by the 1990's. Spending for recovery of oil fro the North Sea could reach $144 billion i the next few years and the offshore oil industry in Scotland will soon account for half the world's total investment. So far it has created some 60,000 jobs for Scotland, now Europe's most active center for offshore technology.

The recently-announced government plans for a gigantic gas-gathering pipeline which will run up the North S with a spur to East Scotland is expecte to cost $2.6 billion to construct. Apart from the construction supply opportun ties, it is estimated that $10-15 billion of business will accrue onshore once it is built.

v Business Opportunities

A Scottish chemist, Dr. James ng, known as "Paraffin Young" use of his success with lamp oil, nsidered the father of the modern ndustry, having developed the prin- es of refining oil in the 1850's. His patriots, alongside the overseas in- ors, are now developing the technol- needed to bring the oil ashore. The very factor of North Sea oil fields is ercent, which is high by world stan- ds, but this still means that some 18 on barrels will be unrecovered unless techniques are developed. The in- ry offers unprecedented business ortunities. An example is the shor- of rigs of all types and all the sup- services and facilities which will be ded within the next few years.

U.S. companies currently in Scot- include J. Ray McDermott from Orleans, Kerr-McGee International Co., and its drilling subsidiary, sworld Drilling, Halliburton Inc., mings, Baker Tools and Gray Oil s. Unlike their counterparts in the tronics industries, the U.S. compa- in the oil-related industries came to land because of the product. Once e, they have benefitted from the r advantages that Scotland was able ffer—attractive financial incentives, the skilled labor force, the pragmatic relationship between government and environmental group concerns and the lack of industrial disputes.



Scottish workers are among Europe's most highly skilled.

European Economic Community

Scotland, as part of the United Kingdom, offers the benefits of membership in the Community which now represents a market of 260 million people—bigger than the United States.

As the Community progresses, trade and economic links will be strengthened between the partners, probably on occasion to the detriment of other trading blocs. For an American company, therefore, there will still be a powerful economic incentive to establish operations in the Community in order to

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take advantage of the preference given to members. In addition to the obvious cost advantages in the transportation of goods and the lower cost of labor, there are no tariffs imposed on member nations (outsiders currently incur a 7% levy).

Scotland exports more per capita than any other area of the U.K., and American companies export about half of their production to the rest of Europe. Scotland also affords easy access to the markets of Africa, the Middle East and Eastern Europe.

FINANCIAL INCENTIVES

Of all the considerations which go into choosing one area over another, the "bottom line" is perhaps the most critical. Enticed by the lures of zero corporation tax, offshore banking facilities and a myriad incentive programs, an American company can expect a good deal when making an investment overseas.

Most overseas firms now look at the real bottom line advantages which include factors such as productivity, the availability of skilled labor, research ar development grants, depreciation and new building incentives, all of which c add up to a more attractive financial package in the long run. According to the Scottish Development Agency, a company could end up paying less tha 20% in corporation taxes and many ev are able to reduce that figure.

Scotland is as mindful as any othe regional development area of the competition for overseas investors and pro vides an ingenius array of financial incentives. In addition to the multipurpose Scottish clearing banks, insur ance companies, investment institutio pension funds and merchant banks— of which contribute to Scotland's repu tion as a thriving financial center— the are a number of specialized bodies which oversee government funding projects. This is part of a long-standin policy on the part of the British Government to encourage expansion in le congested areas where the labor suppl is more plentiful. Scotland benefits substantially.

A new "Locate in Scotland" unit been set up to coordinate under one r all Government and public organizatic to provide a one-stop facility for overseas investors. All information on site suppliers, markets, support services a Government financial packages can be handled by this one group.

Grants and loans

The Scottish Development Agency was set up by the Government in 1975 Its main commercial aims are to promo Scottish economic development, to pro vide, maintain and safeguard employment and to promote industrial efficie cy and international competitiveness. The Agency provides medium and lon term loan capital, equity capital and ri and development finance. It is also Bri ain's largest industrial landlord, and with approximately $200 million worth of factories and industrial sites is able offer up to three years rent free to new investors in Scotland.

As a special development area, Sc land offers supplementary financial incentives. Regional development grants of up to 22% are available for new buil ings or conversions of existing buildin and for new plant and machinery for use in manufacturing. Grants of up to $15,000 a job can also be made to servi industries, offices and research and de velopment units. There is even a gran for moving personnel into these areas. Projects which create, maintain or safe guard employmnt in Scotland can be asisted through a system of grants anc loans. Research and development proj ects in the microprocessing industry d veloping new products and processes

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qualify for grants of up to 25% of . Discretionary grants, which can a third or more of fixed capital , can also be available.

The Industrial and Commercial Fi- e Corporation (ICFC) provides loan equity capital on sums ranging from 00 to $5 million for small and um-sized companies. A range of cial and consulting services is also able. Development and start-up al, from $125,000 upwards, for tech- gically-based businesses can be ned through Technical Develop- Capital (TDC).

Another Government body, the nal Research and Development oration, helps finance the develop- and production of inventions and vations, and the National Enterprise d provides equity and loan capital.

Tax Incentives

Expenditures on capital investment eligible for tax relief. For example, otal cost of capital equipment may ritten off in the first year. For new strial buildings, 79% of the con- ction costs may be written off. There so a system for carrying forward sed tax write-off allowances.

Labor Training Incentives

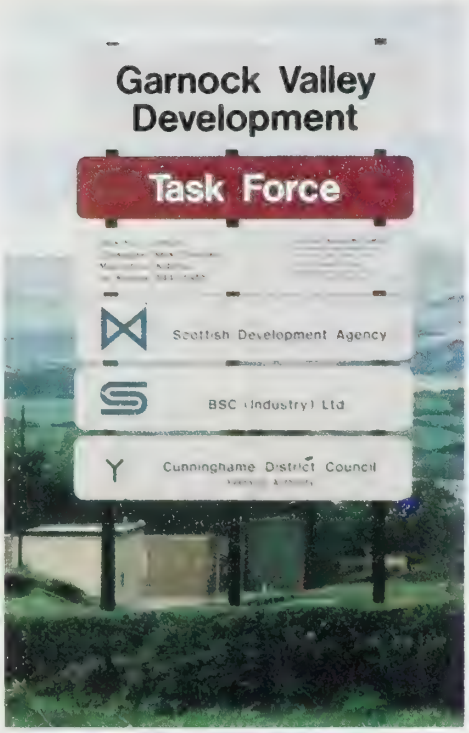
In order to help industry identify meet its training needs, free training e workplace as well as at special col- s can be available. In 1977-78, nearly 00 people completed outside courses some 8,500 employees, representing 0 firms participated in in-house ses. Grants are available for em- ing trainees, and up to 80% of ntial training costs in new invest- ts can be met through government ts.

European Economic Community

Companies located in Scotland are ble for a number of Community ncial benefits. Low interest grants loans, usually upwards of $2 mil- are available to companies to fi- e industrial projects and support ces which help create jobs and solve nal problems.

OTTISH ECONOMIC VELOPMENT ENCIES

Scotland is usually recognized ad as a distinct entity within the It has a reputation for a climate onomic, scientific and intellectual . Besides, it is a good place to live. e are for many Americans sen- ntal and historical reasons for want- o invest in Scotland. But companies e the final decisions based on more ical considerations, such as the poli-

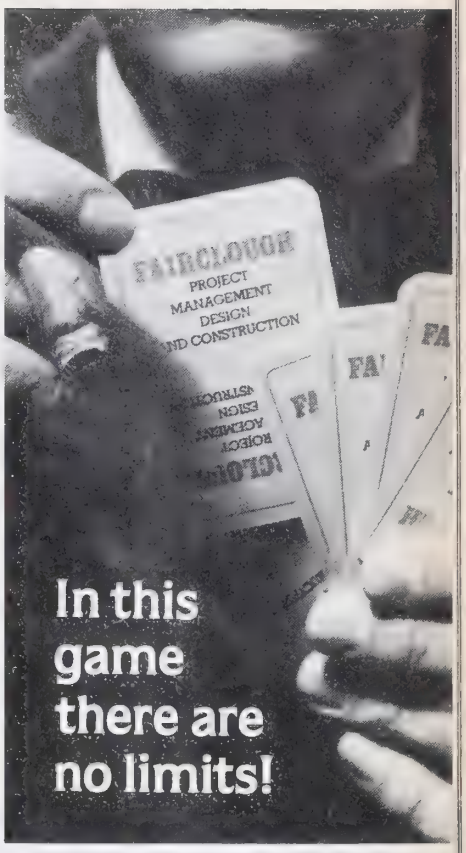


A national development agency, a major industry and a local government authority team up.

tical/economic environment (since safety of the investment is a factor), the ability to make a profit, the character of the workforce (which includes productivity, skills, flexibility), labor relations, the availability of specialized labor as well as production workers, the government's financial incentive packages, access to marketplace, infrastructure of transportation and communication links and, especially for American companies, the need to speak English!

Like many economic development areas around the world, Scotland has its share of bureaucratic procedures and a plethora of agencies charged with communicating with eager investors. One of the reasons cited for Ireland's success in attracting foreign investment has been its one-stop agency concept, despite the concerns about the supply of qualified personnel.

Scotland has recently moved to coordinate its promotional bodies and has established a "Locate in Scotland" bureau which will combine the activities of the Scottish Development Agency and the Scottish Economic Planning Department under one roof and one director, Richard Burns. This means that companies interested in investing in Scotland now approach one agency on physical and marketing questions as well as on the financial considerations. For U.S. companies who are generally more interested in short-term profitability, as opposed to the Japanese who generally take the longer view, this has streamlined the decision-making process.



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CITIES AND NEW TOWNS

Scotland's four major cities are small by U.S. standards but each is the natural focus of the surrounding social, economic and cultural life.

Glasgow, founded over 800 years ago, is the country's center for trade, commerce and culture. Linked by air, rail, and modern road networks to the rest of Britain and continental Europe, the city's strategic position has attracted major national and international organizations such as the British National Oil Corporation, the Scottish Stock Exchange and the Scottish Development Agency. The city promotes itself aggressively in Europe and overseas and maintains an economic development office in San Francisco. Glasgow is also an important focus for the educational and training needs of this rapidly expanding economy, supporting two universities and a number of technological colleges.

Edinburgh, with 450,000 inhabitants, is the capital city and the focus for government, financial, banking and cultural institutions. Renowned for its regal Georgian architecture and its dramatic castle, the city is a popular tourist center and famous for its annual International Arts Festival. Here, too, are two major universities which have specialized in recent years in science and high technology education.

Dundee is Scotland's second industrial city and an important port. The home for many years of Timex and Michelin, Dundee is in a good geographical location to take advantage of the offshore oil industry. The city represents an attractive investment potential for overseas companies who can supply this industry.

Aberdeen is the oil capital of Scotland and services the booming North Sea industry. It is famous for its university, the old granite buildings of the city center, and the fish market which still supplies the rest of Britain. The port of Aberdeen is a focus for import and export activities, as well as the offshore oil industry.

Scotland's five New Towns — experiments in planned urban development — have grown impressively both as residential areas, since they are close to the older industrial cities, and as the home for high technology and oil industry support manufacturing operations. East Kilbride, founded in 1947, is nine miles from Glasgow and the home of Motorola. Glenrothes, founded a year later, houses 16,000 people and 160 companies, forty percent of them from the United States, and in about 4.8 million square feet of office and plant space. Cumbernauld has attracted nearly a hundred companies and Livingston, outside Edinburgh, was recently selected by Nippon for a new $100 million plant investment.

East Kilbride New Town

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Robert Louis Stevenson

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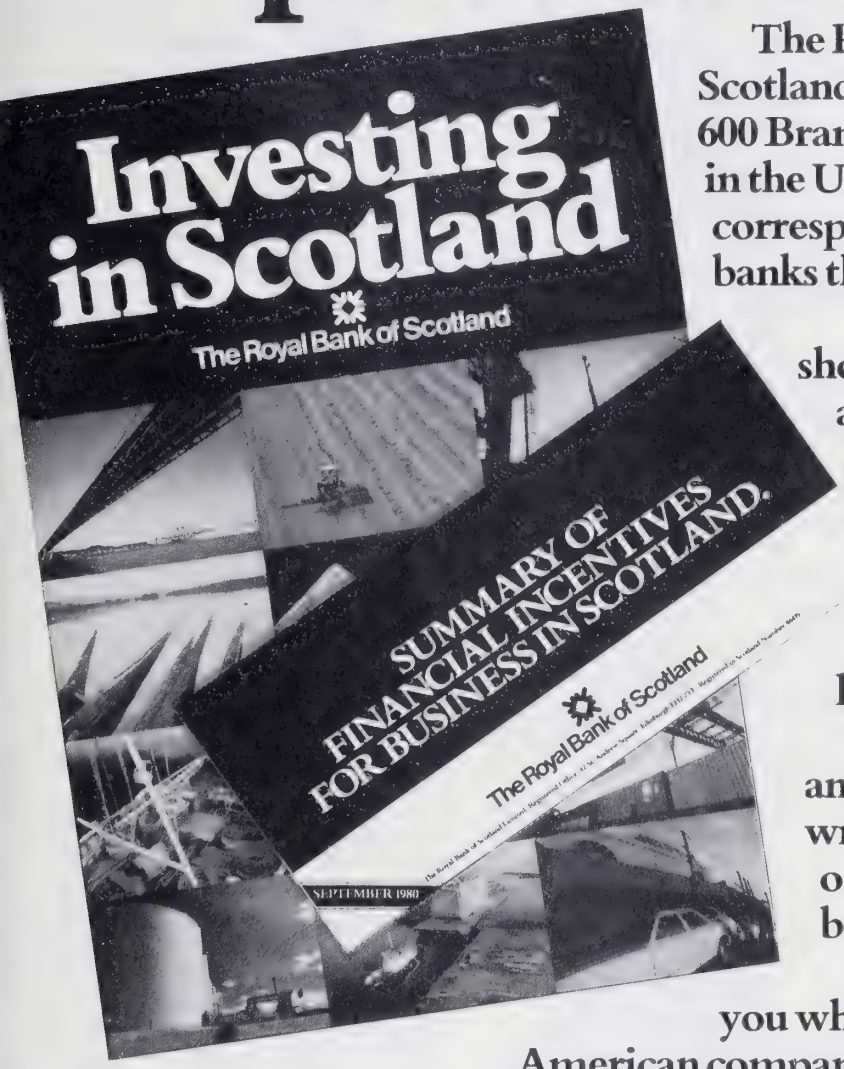

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SUMMARY OF FINANCIAL INCENTIVES FOR BUSINESS IN SCOTLAND

TAX ALLOWANCES

Plant and Machinery	100%	in first year
New Industrial Buildings	79%	in first year
	4%	per annum thereafter
Industrial Building Insulation	100%	in first year
Hotels	20%	in first year
	4%	per annum thereafter

REGIONAL DEVELOPMENT GRANTS

Grants for capital expenditures for new plants, machinery, buildings and works: Up to 22% of capital cost.

REGIONAL SELECTIVE FINANCIAL ASSISTANCE

Grants—Available to manufacturing, mining and construction industries where jobs are created or secured in Scotland. Grants in the amount needed to secure the project's success are payable, normally in four installments, for up to about 10% of costs.

Loans — at commercial or concessionary rates available in special cases. Some interest-free periods available.

Training Costs—Grants to cover salaries of trainees and instructors, of up to 80% of cost, where a minimum of 25 jobs will be provided.

Office and Service Industries Incentives—Grants of up to $15,000 available for each job provided within three years of start of investment project. An additional grant of $3,750 per employee is available for moving expenses. Up to 30% of the jobs provided qualify.

SCIENCE & TECHNOLOGY

For projects involving design, development and production of new or significantly improved products or production processes special support is available.

Product & Process Development Scheme—For manufacturing projects with a minimum investment of $60,000, grants of up to 25% are available to assist in completion. In some cases, costs can be shared in exchange for participation in commercial sales.

Microprocessor Application Project — Grants of 25% of the costs for special applications of microprocessor technology are available for training courses, consultancy fees and research into applications. Projects costing over $25,000 are eligible.

Microelectronics Industry Support Program—Research and development projects costing over $25,000, and capital investment projects costing over $60,000 are eligible for grants of 25% of the costs.

Major industrial investments costing over $1.1 million qualify for additional grants of about 10% of project costs.

SCOTTISH DEVELOPMENT AGENCY (SDA)

As the Government's principal instrument of industrial and economic regeneration in Scotland, the SDA develops factories and industrial sites. Rent free periods of up to three years are available to companies creating employment. Equity participation, long term finance and technical and managerial services are also available for capital expenditure and working capital and specialized marketing and consulting services are offered to small businesses.

The Agency also encourages joint ventures and industrial and financial partnerships.

EXPORT ASSISTANCE

The British Overseas Trade Board provides information and advisory services to exporters.

Market Entry Guarantee Scheme (MEGS) — For small and medium-sized companies costs are shared to develop new export markets, in return for participation in sales.

Export Credits Guarantee Department (ECGD) — Insurance arranged for non-payment situations. Bank guarantees to ensure preferential rates.

Enterprise Zone — Clydebank near Glasgow, has been identified as Scotland's only Enterprise Zone where special additional incentives are available. Companies moving to a 600 acre area will pay no local property or land taxes and will face minimal planning controls and exemption from Government levies.

LABOR

Training — Grants available to employ apprentices and trainees, and to provide on the job training for college students.

Training Opportunities Scheme (TOPS)—Free training with expense allowances. Course in colleges and corporations.

Temporary Unemployment — Employers are reimbursed 75% of employees' normal pay for workless days. This incentive provides an alternative to employee layoffs.

Early retirement plan—In order to encourage early retirement by workers within one year of statutory retirement age, tax free allowance is available.

OTHER AGENCIES

Local Authorities—Loans are available towards purchase of land, and grants for the conversion or improvement of existing facilities. Up to 90% of the cost can be borrowed for the construction of new factories.

New Towns — Additional incentives are offered by the five towns, to encourage the establishment and expansion of industry.

Highlands and Islands Development Board—Grants, loans and equity participation are available. Corporations contribute at least 50% of cost of developments.

Scottish Tourist Board—Grants and loans of up to 50% available towards capital expenditure.

National Research Development Corporation—A public corporation which provides finance for technological innovation.

Manpower Services Commission—expert advice and assistance on training requirements.

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134 BLYTHSWOOD STREET · GLASGOW G2 4EL · TELEPHONE 041 332 4027

h its near-monopoly in postage meters still scathed by government attack, Pitney ves feels it can afford to make haste slowly copiers and word processors.

Marketing is what counts

By Subrata N. Chakravarty

E HAVE NO INTENTION OF being the best copier company in the country," says Pitney Bowes man Fred T. Allen. "We're not put- Xerox out of business. We're not to put Savin out of business. All ying is that with a customer bank ut 1 million customers in the U.S., sell copiers in addition to our ge meter product."

en's point is that Pitney Bowes has que advantage over the other com- rs because of its sales and service of about 7,500. "Here we are, prob- one of the last companies—and I l say even more so than IBM and —that has a direct sales organiza- canvassing and knocking on doors nwide," adds George Harvey, presi- of PB's business systems division. to the point is that PB's marketing gth is aimed right at the fastest- ng segment of the market, where ey competitors are weakest. PB's force works with thousands of businesses, the very ones that ignored for so long and that the ese companies have been trying so o reach through dealers.

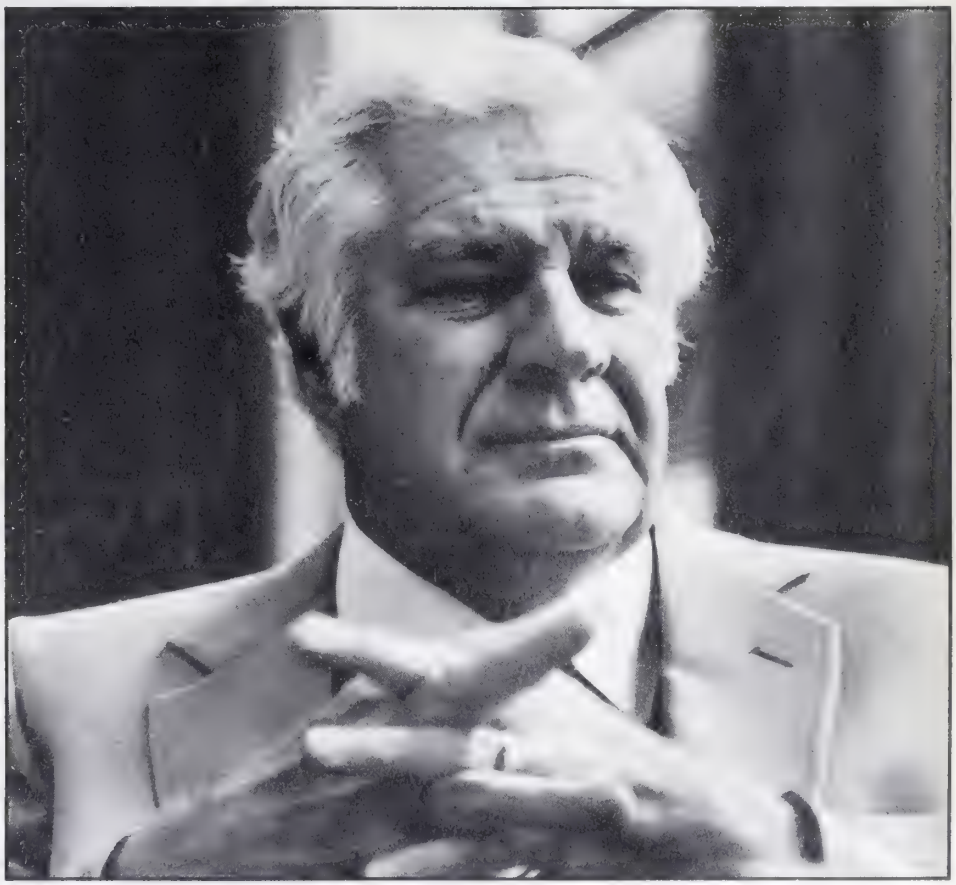
ning this potential advantage into l sales, however, is not so easy. te its army of salesmen, PB can- laim more than 4% of the boom- onvenience copier market. That ares with an estimated 35% share erox, 10% for Savin and 6% each veral others, says Monica Cama- an analyst with Dataquest in Cu- o, Calif.

ney Bowes originally got into the business because it recognized it was a one-product company; over, that product, its familiar line dely used postage meters, had been antitrust attack by the Justice De- ent for several years.

about the same time it got into rs, it also entered an ill-advised joint venture with Alpex Computer Corp. in point-of-sales devices. The joint venture cost PB $78 million in write-offs after it was closed down in 1973. Then the Justice Department gave up trying to encourage competition in postage meters—a business few wanted to enter. So Pitney Bowes concentrated on improving its mailing systems, pouring money into research and development, broadening the product line and improving the technology of the equipment. Meanwhile, the copier business grew slowly to a volume of about $130 million last year on the strength of a very limited line of small, inexpensive, coated-paper copiers. Although the Justice Department recently reopened its investigation, the company isn't too worried, because there have been a series of rulings in its favor.

Not until early last year did George Harvey conclude that the small, or convenience, copier business had enormous growth potential that PB was unable to exploit, despite its advantages, because it did not have a complete line. PB needed faster machines that used plain paper. Lacking plain-paper technology of its own, PB was forced to buy it from those who did. In mid-1980 it introduced a desk-top plain-paper copier partly designed by Hoffman Enterprises, a New Jersey company. Then, to get a foothold in the medium-speed, medium-volume copier market PB went to the Japanese. Late last year it introduced the PBC-II console copier, purchased from Minolta. With a speed of 30 copies a minute and several features, it serves the medium-speed and medium-volume end of the market. Then last month PB announced an agreement to market a medium-speed copier made by Ricoh, Japan's largest copier maker, under the Pitney Bowes name. By buying machines instead of licensing technology and manufacturing, PB can stay price competitive even on a low sales volume.

Since Ricoh had announced plans to dissolve its partnership with Savin Corp.



Pitney Bowes' Fred T. Allen
"We're not putting Xerox out of business."

and market its copiers in the U.S. itself, last month's deal was quite a coup for PB. Why did Ricoh change its mind, and why with PB? Because of PB's access to the hinterlands through its extensive direct distribution system, Ricoh could still market its copier through dealers in the future, but Allen is not concerned about that. "We have the salesman in place, the serviceman in place, the customer in place," he points out. "I don't think Ricoh has the capability of setting up the marketing operation that we have. It's dreadfully expensive."

With the PBC-II copier going into national distribution this year and the Ricoh machine next year, PB will finally have a full line of machines for the low and medium volume end of the market it wishes to serve. That is the segment where Xerox and IBM are weaker and PB's customer base is strongest.

PB hopes that its broader line will enable it to build its market share to about 6% in five years. The machines themselves offer nothing special and have no compatibility of parts, but Allen believes that Pitney Bowes' ability to offer prompt and efficient service through its distribution network will give him the upper edge.

The copier business is just the first step in a longer-term strategy. In 1979 PB bought Dictaphone, itself the market leader (with about 35% of the U.S. market) in dictating equipment, for $128 million in cash and stock. While that was about double the book value for a company under severe pressure from Japanese competition, PB bought a market leader with a good reputation, an enormous client list of its own and a sales organization of 1,600 catering to different people than PB.

Now, using the Dictaphone organization and front office contacts as a base,

Not until early last year did George Harvey conclude that the small, or convenience, copier business had enormous growth potential that PB was unable to exploit because it did not have a complete line.

PB has entered the word-processing field. Last year it paid $10 million for Artec International, a promising contender in that field, and is now marketing its word processor through Dictaphone. As with copiers, it has tried to avoid competing head-on against the likes of IBM, Wang and Xerox, searching for the market niches—in this case Dictaphone's traditional strengths—the legal, educational and medical markets.

Once again, late starter PB is approaching the market cautiously. "[illegible] processing is a way for us to get int[illegible] office of the future without a maj[illegible] vestment," says George Harvey. [illegible] don't need to be $100 million in [illegible] processing tomorrow in order to ge[illegible] 20% corporate growth near term. B[illegible] do need to begin to get a feeling fo[illegible] marketplace."

That growth goal, however, will [illegible] to be deferred at least until 1982. P[illegible] Bowes ran up a heavy amount of s[illegible] term debt at very high interest rate [illegible] year in order to carry sharply high[illegible] ventories. Then in the first quart[illegible] this year, earnings fell 30% on a [illegible] increase in sales because of a weak [illegible] omy, lower production (to bring [illegible] inventories) startup losses on the i[illegible] duction of word-processing mach[illegible] and an accounting change, to the [illegible] method.

While it may take Pitney Bowe[illegible] rest of 1981 to recover, that is likely [illegible] only a temporary setback for a com[illegible] whose return on equity has impr[illegible] steadily over the decade from 9.4[illegible] 1970 to a handsome 20% in 1980. W[illegible] growing offshore market in mailing [illegible] tems plus a growing replacement m[illegible] domestically and the promise of co[illegible] ued improvement in the copier and [illegible] tating machine markets, Allen's p[illegible] of making haste slowly should beg[illegible] pay off generously come 1982. ■

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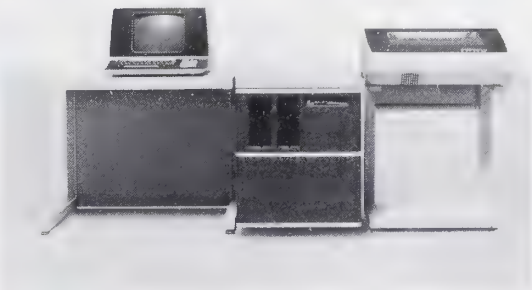

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Our business is helping other businesses grow.

A clever new tax bill offers a sweet break for investors and some badly needed capital for the harassed small businessman.

"We all live off those little guys"

THE SMALL BUSINESSMAN is everybody's friend and nobody's partner. For many years Congress has debated various forms of relief. But today the little guy is especially harassed, stung by sky-high interest rates and strapped for new capital. For most small companies the sign at the bank teller's window still says "Prime plus 2%, take it or leave it."

But in February Senator Lowell P. Weicker (R–Conn.) introduced an imaginative bill in Congress that offers both a convincing approach to financing for small business and an enticing tax break for investors.

What Weicker is proposing is a new financial instrument called a Small Business Participating Debenture (SBPD)—sort of a cross between a stock and a bond. It would be entirely administered by the small businesses themselves.

Larry Stevens of Complete Lumber, Inc.
"There's no way you can borrow from the bank at today's rates."

Edited By Richard Greene

They would directly issue the SBPI general obligation with a fixed ma date. The SBPD would carry a nominal rate of interest. It woul offer a varying share of the comp profits for the period the SBPD effect.

"It's the tax break that makes th for the investor," says David Fran a counselor for the House Small Bus Committee. While the basic inter 8% or so would be taxed to the in as ordinary income, his share of the pany's earnings would be taxed capital gains rate. Finally, inv would be allowed to treat any los ordinary deductions.

Part of the appeal of SBPDs t small businessman is that he wo forced to relinquish any ownersh control. When the debenture ma the outsiders vanish. In the mean they won't have any voting or co sion rights. And there's an attracti break for the business owner, too: entitled to deduct as a business ex both the basic interest payments a share of earnings.

Sounds like AT&T might like a of this action, but the bill ensure only small businesses qualify. Only nesses with net worth of $25 milli less will be entitled to write up million of SBPDs.

Here's how an SBPD might wo small company writes an SBPI $100,000 over a seven-year period stated interest to be paid is 8% there's a 20% share of the pretax p to be distributed to one investor. say the company earns $48,000 deductions for interest and taxes. $ is paid as basic interest. On the ba of $40,000, another $8,000 (or 20 earnings) is paid to the investor. $8,000 is taxed at the maximum c gains rate of 28%. Let's assume th investor is in the 70% bracket. $8,000 taxed at 70%, and $8,000 ta 28%, he rakes in earnings of $8, which is the equivalent of a 27% ordinary return. And while the has made a 27% return, the borrow paid only 16%, after his deductio all interest payments are made.

Most important, the small bus man gets a much needed infusion ital. Says Larry Stevens, who o retail shop, Complete Lumber, In Evansville, Ind.: "I think SBPDs be really good for us." Stevens wa open another store; he already h option on the site and has been tryi five months to raise the capital. "T no way you can borrow from the b today's rates. It's a guaranteed f We were hoping to get industrial re bonds, but they haven't worked ou

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we'd wind up paying an average 12.5% interest for them anyway, so these SBPDs sound better."

"At these interest rates, it's darn hard to get capital. SBPDs would be terrific for us," says Charles Burnett, general manager of a Ramada Inn in Henderson, Ky., who would like to add about 70 rooms to his motel.

William Barth, director of small-business practice at Arthur Andersen & Co., guesses that there are about 2,000 small businesses that would use SBPDs, averaging about $250,000 of debt apiece. That's a $500 million rush of capital into the sector of the economy that in the last decade provided 87% of all new jobs.

No doubt the Treasury will oppose the idea. Assistant Secretary for tax policy John Chapoton says he favors "doing something for all taxpayers rather than making a special rule for small business." It's not hard to guess what's behind these words: The Treasury is concerned about the revenue loss and the possibility of setting a dangerous precedent. Says James O'Connell, the economist on the Senate's Small Business Committee: "When you cut through all the legal jargon, the SBPD still brings you a step closer to corporate integration [eliminating the "double" taxation of dividends—once for the company, and again for the stockholder]. Once you allow small businesses to deduct dividends, the Treasury probably feels it'll be hard to plug the dike."

At the moment, the odds of the bill's passage this session don't look good. But its supporters are lobbying hard. Says Senator Weicker: "Enactment of the SBPD is critical to improve small business' access to external financing. The SBPDs will work because they're attractive to both owners and investors."

There is an urgent need for such aid. Small businessmen have traditionally had trouble raising capital for obvious reasons—any investment in a small business can be risky. SBPDs won't change that. An SBPD will give the investor profits taxed as capital gains—but that's only worthwhile if there are any profits to be taxed.

So investors will have to be careful about negotiating fair terms. Profits will have to be precisely defined, for example, so that a business owner can't declare a hefty bonus for himself. And the owner will have to modify his plans in other more important ways: With an outside investor impatiently waiting for a piece of the pie, the small businessman won't be able to continue plowing his profits back into the business.

Investors in SBPDs will undoubtedly be in high tax brackets, with the money to make a risky investment as well as the need for tax relief. And for such an investor, an SBPD may prove more attractive than most limited stock offerings because an SBPD gives him a guaranteed way out of his investment that he won't get with a minority interest in a company. Says Barth: "A 49% interest in a company may be worth nothing, unless you've gotten a commitment from the owners to buy you out." With an SBPD, the stipulated maturity ensures that you won't be stuck, as long as the company stays in business.

Small banks—which are tied to the prime but must still support local business—are also likely to embrace SBPDs. "Sure we endorse the idea," says John Rogers, executive vice president of the First National Bank of Toledo. "But we need a carrot for both the lender and the borrower. That small businessman is our lifeblood—we live off those little guys out there, and we love 'em." That price, he says, has to be right.

Big brokerage houses may get into the act as well, selling groups of SBP their high-bracket customers as th second mortgages. "Small business always risky investments, but we decide to sell and package these thi if we could monitor them and get a enough pool to spread the risk," Anthony Lamport, head of ventur ital at Drexel Burnham Lambert. we then see a mini-new-issue boo SBPDs reminiscent of the late Si Not likely. There's no way to ge quick here and, with a $1 million c per company, the scale is kept delib ly small.

Says Arthur Little, chairman and of Narragansett Capital *(see* FORBES *17, 1980)*, a $9 million (1980 reve Providence, R.I.-based venture c firm: "SBPDs are one of the best, innovative ideas I've heard of in time."—**Barbara Rudolph**

It's easy to see why corporations like to bonds that don't pay interest. But why wo anybody want to buy that kind of paper?

A strange breed of bond

Numbers Game

By Richard Greene

WE'VE POINTED OUT on these pages earlier that the current rash of low-interest-bearing, deep discount bonds are no bargain for investors. Why, then, do they keep coming to market? For example, on Apr. 22, the tombstone ad read: "$200,000,000. J.C. Penney Company, Inc. Zero Coupon Notes Due 1989."

A bond with no interest sounds like a car with no motor. But the next line of the ad started to make sense: "Price 33.247%." Buy about $330,000 worth of bonds now and collect $1 million in eight years. Check it out on the calculator, and it turns out that the *effective* interest rate is 14.25%.

In part the bonds are coming to market because they have distinct advantages for the borrower and for nontaxpaying pension funds and other institu The Penney "zero coupon bond' first of its kind—is just the logical of the trend to deep discount bond gered by sky-high interest rates. By ing buyers 6% and 7% bonds sell discounts of betweeen 40% and 5 the past two months, companie Martin Marietta, Northwest Indu Cities Service and Alcoa were able in half the cash flow burden on b ings with a face value of over $2 b Zero discount bonds eliminated cash flow burden altogether.

"You issue a zero coupon bo eight years and for the whole tim don't have to worry about one pe interest on the debt," says Denis a partner with Peat, Marwick & There are also a number of acco and tax advantages to the issuer.

Unfortunately, these bonds just

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Of course, only top-rated firms like J.C. Penney are going to sell any of these issues. Would you want to trust a shaky firm to collect your interest payments for you and have them all in hand 8—or 30—years from now?

work for private individuals. The IRS is nobody's fool, and it reasons that since these issues increase redemption value in lieu of interest, that increase should be treated as interest and taxed as ordinary income. What's more, the taxmen insist on collecting those taxes on a yearly basis as the company upgrades the value of its bonds in its books. So the investor doesn't even get the advantage of deferred taxes.

But it's a very different story for pension funds, which don't pay any taxes. They've been swallowing up these issues with great enthusiasm.

The most significant—and frequently overlooked—advantage to deep discount and zero coupon bonds comes on the issuer's tax form. Anthony V. Dub, vice president of First Boston, the firm that underwrote J.C. Penney's highly successful zero coupon bond as well as several other deep-discount bonds, explains: "Under IRS regulations, the issuer amortizes the original issue discount over the life of the issue, which provides a tax deduction even though no interest is actually paid.

What's more, a company may actually pay *less* interest over time than it would with conventional issues. For example, with Penney's zero coupon issue, according to Dub, "If they had done a standard eight-year offering, they would have paid 14.9%. This paid 14.25%. Add to that the tax benefits and it was a real cost to Penney of 13.6%."

Penney's Kenneth S. Axelson, senior vice president of finance, smiles broadly when he talks about those numbers. "This turned out to be extraordinarily attractive for us," he says.

If such an issue is so attractive to companies, mightn't hundreds of firms jump in, glutting the market? Probably not. There's certainly one control over the size of the market in that only top-rated firms are going to sell any of these issues. Would you want to trust a shaky firm to collect your interest payments for you and have them all in hand 8—or 30—years from now?

But while it's clear that these new issues can be great for issuers, why would any pension fund buy a financial instrument that takes years to pay a penny—and then pays less than other alternatives? Two reasons.

First, guaranteed reinvestment return. Zero coupon bonds provide absolute protection against volatile interest rates that can play havoc with pension fund reinvestment plans. As any bond investor knows, you can not get the total return on a bond unless you can reinvest all the interest at the same rate over the entire period. If you've got a 14%, 30-year bond, and after 5 years interest rates drop to 10%, you are not going to get that 14% return on your entire investment over the 30 years.

But with zero coupon bonds you k guaranteed return. "The advantage investor," says H. Fred Krimend partner with Goldman, Sachs, whic the first deep discount new issu knowing *in advance* at what rat money is going to be reinvested." ticularly for pension funds, which want a guaranteed matching of out and income, that's a very helpful factor—certainly worth sacrificing tle interest for.

Second, call protection. In ge there's no gain for a company in c the bond before maturity, since don't save any interest and only ha prepay a lot of cash.

One added benefit to institution vestors is that buying these bond mits them to cook their books a you have some bonds you want to g of but are afraid to book the loss, yo swap them for no-interest or low- est deep discount bonds without h to write down your assets.

So, you say, if these bonds are nifty little numbers, what took th long to burst upon the scene? The f zero coupon bonds aren't really a new idea. They were first con about eight years ago when inc quantities of money started flow the Middle East in exchange for oil worried investment houses, since in the Koran that interest is prohi How to sell those Moslems bonds not zero coupon bonds? But just idea got rolling, religious experts Middle East found loopholes in the to deny that those dollars you get year from bonds are interest. Zer pon bonds went back on the shelf.

Off the shelf they came when term bonds became hard to any price. The bond sal needed a gimmick and here it was.

Says Goldman, Sachs partner Kr dahl, "We talked to about 200 com and they were all nervous. Many close but backed off. To the cre Martin Marietta, they did it. It out that it was a better deal th expected. We initially put out a fa ue of $150 million but there was so interest shown that we put out million [public price: $94.2 millio

It was only a matter of time for one to go for "the ultimate," as Boston's Dub calls it, and try a zero coupon bond. But we can o peat Ben Weberman's warning *(A and May 11)* for individual invest shun these bonds like the plague. are dumb enough to buy them, In Revenue is going to make you pay on money you haven't received—t ferral in painful reverse. And don't you can put one over on Uncle reporting the item: Internal Reve requiring the issuer to file a littl that puts you right on the hook. ■

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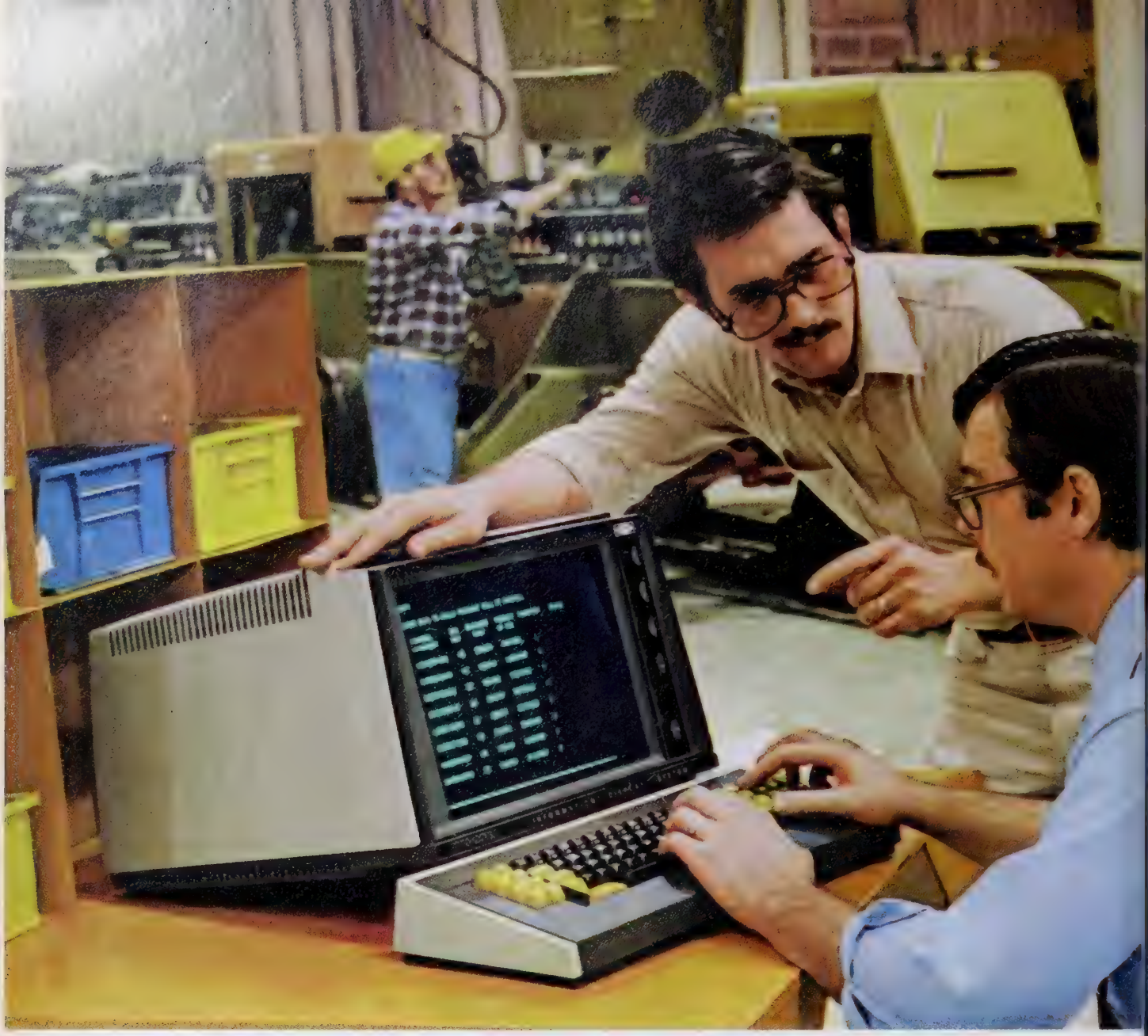

They're looking at the beginning of the end for production line paper w

Computerization has dramatically changed the way information is being handled. And the key to putting computer power where the action is—virtually eliminating the need for paper work—is the ubiquitous computer terminal.

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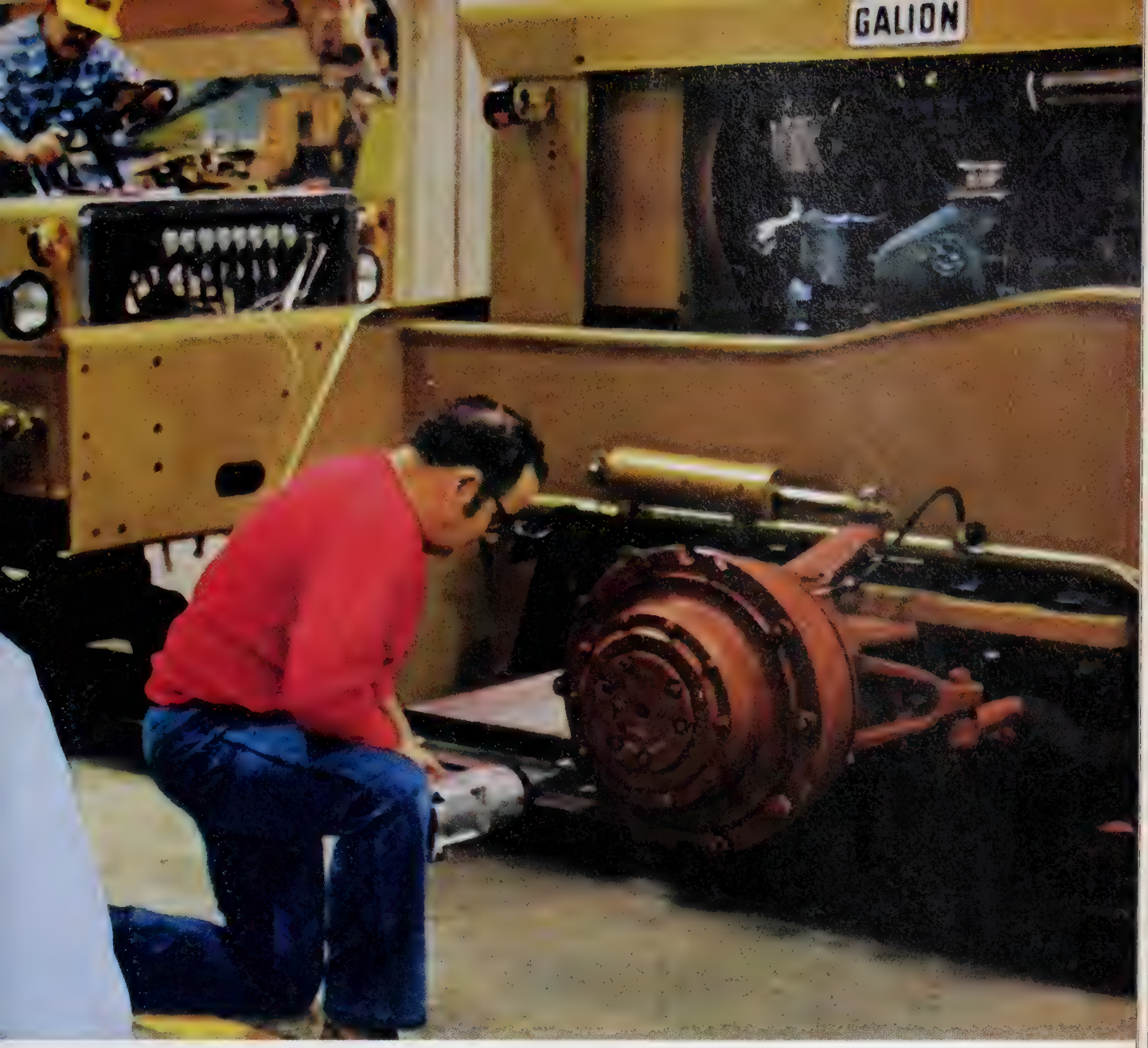
In a wide range of business applications t include manufacturing, distribution, transpor tion, insurance, finance, and government, Raytheon terminals are helping people use inf tion more quickly and more efficiently. So it's surprising that Raytheon Data Systems has be



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RAYTHEON

Faces Behind The Figures

Edited by Jefferson Grigsby

Still all in the family?

The Japanese are past masters of protectionism by red tape, and the same pattern is beginning to emerge in the much-heralded "opening" of Nippon Telegraph & Telephone's equipment market to American manufacturers.

After years of U.S. government pressure, the $15.4 billion (sales) Japanese telecommunications monopoly in December agreed to give the Americans a crack at the $3 billion it spends on equipment every year. U.S. companies also will be able to sell (with NTT's approval) electronic gear to Japanese companies that can be hooked into NTT's lines.

NTT even dispatched Haruo Yamaguchi, an amiable senior managing director, to the U.S. to give advice to companies like Rockwell International, TRW, Motorola and General Telephone & Electronics. "Market access is there if the requirements are met," he says. "The U.S. has the technology and there are enough companies who can meet our technical requirements."

Trouble is, so far a lot of those requirements don't seem to have much to do with technical capability. NTT has already asked for the kind of information U.S. companies guard jealously—production costs, for example, and market-share figures. Rolm Corp., which would like to sell its private PBXs to Japan, was shocked to find NTT asking for designs of its software—ostensibly to determine whether it could meet "quality" standards. "We would never give them that," says Wolfgang Schwarz, Rolm's general manager for its international division. "That software is probably our most important asset."

Over 90% of what NTT now buys comes from the closely knit "NTT family"—a handful of Japanese companies like Nippon Electric, Hitachi and Fujitsu—and it won't be easy to get into this family. Only about 20% of NTT's procurement budget will be up for open bidding—little of it the high-technology products the U.S. really wanted; the high-tech stuff must be developed jointly with NTT once it has approved a company. "We want to establish the same mutual confidence with the U.S. companies that we have with Japanese companies," says Yamaguchi. But confidence on this side of the ocean is not running very high.—**Kathleen K. Wiegner**

Time to specialize

Investment bankers and brokerage houses are among the hottest targets around these days *(see p. 100)*, but so far the acquirers have usually been financial institutions. But when the Bechtel family, which controls San Francisco's Bechtel Group, the $7.6 billion (sales) engineering and construction giant, buys majority interest in New York's 150-year-old Dillon, Reed & Co. in June, it will be the first time an industrial empire has joined the current wave of Wall Street mergers and acquisitions.

"The finance of big construction projects is critical," says Bechtel President George Shultz. "Already we were in on the study and development of the financing, so our association with Dillon will be helpful."

Considering that last year F booked $11.3 billion in new work for such heavy-construction proj power plants and oil refineries, Be association ought to be more tha ful to Dillon, Reed, too. But Shul has something else in mind: specia Says he: "With larger and larger fi houses providing wider arrays of cial services, there's more oppo for a firm that concentrates on tra al investment banking services." the kind needed by Bechtel's huge trial clients, who raise hundreds lions of dollars annually.

The merger merges some top tials: Both Shultz and Dillon, Reed aging director, C. Douglas Dillon, Treasury Secretaries.—**John Merwin**

The grand stroke

U.S. Steel has had a flair for the financial stroke ever since J.P. M and Judge Elbert Gary put it toge the world's first billion-dollar co tion 80 years ago. The company's is in keeping with its tradition: th est leveraged lease in history. If it U.S. Steel Chairman David M. Ro will finance—using hardly a penny company's money—a $650 m 600,000-ton-capacity mill in Bi ham, Ala. to produce seamless p the oil and gas drilling industry.

"We're amazed at the number ple who have difficulty comprehe what we've done," says Roderic those people, here's how it will The basic structure is the same monly used to finance things li cars, barges and airplanes. U.S. Ste its investment banker, Morgan St are currently shopping for big equ vestors to put up about $225 mill return for investment tax credits, ciation, interest deductions an mill's residual value; and for lend provide the rest through a 10-year l the equity holders at market rate Steel will lease the plant for 10 yea cost equivalent to 6% to 7% (then for a subsequent 15 years at tance). That's a shade over half the it borrowed directly, of course—an Steel gets to take the bulk of its payment tax deductions several out—after it has used up all the ca wards from its $809 million 1979 closings.

But the best part is a couple o wrinkles: Roderick won't pay the r the first ten years; his customers U.S. Steel has negotiated ten-yea tracts with a group of oilmen (inc U.S. Steel's oil service subsidiary) just over half the plant's capacity year. These customers will set aside 20% of their pipe bills to repay the

Yamaguchi of NTT
The same old pattern.

Bechtel President George Shultz
The ex-Treasury Secretaries club.

More and more tails to tell.

ading left to right, top to bottom

uth African Airways · Scandinavian Airlines System
uzeiro do Sul · Singapore Airlines · Garuda Indonesian Airways
lippine Airlines · Korean Airlines · Air France
kistan International Airlines · Lufthansa
M Royal Dutch Airlines · Toa Domestic Airlines · Eastern Airlines
Inter · Hapag-Lloyd · Thai Airways International
ian Airlines · Olympic Airways · Iran Air · Alitalia · Iberia · Swissair
yptair · Trans European Airways · Sabena · Air Afrique
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strian Airlines · Kuwait Airways Corporation
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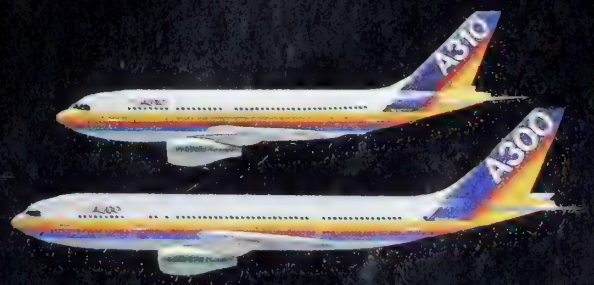

Airbus Industrie

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Behind The Figure

Roderick of U.S. Steel
Maybe it's hard to understand, but it's right in the tradition.

directly. And to sweeten their deal, the customers can double their base purchases during the first five years while still paying the lender over ten years.

"Using our customers' credit leaves our borrowing capacity and $1.6 billion cash reserves intact, so we can do some things we couldn't otherwise," says Roderick, a 56-year-old former chief financial officer for U.S. Steel who worked his way up through the accounting department. He has a $1.2 billion capital budget this year and even more the next to modernize slow-growing steel lines and expand capacity in more profitable and faster-growing businesses—chemicals, heavy manufacturing, energy and transportation. Roderick is also on the look out for an acquisition or two, but unlike some other industrial giants, he isn't eyeing a brokerage outfit. "Finance," he says with a twinkle, "isn't our area of expertise." —Newcomb Stillwell

Au revoir but not farewell

When Comptroller of the Currency John Heimann packed his bags and left Washington this month, he was one of the last Carter appointees to get out of town. Why? "It seemed good manners to stay until they'd had a chance to sort out the other problems." But, says Heimann, "six years is a long time to be in government. It's time to go home."

Home for Heimann, 52, is New York, where he probably will go back to investment banking. He worked for Smith Barney and E.M. Warburg, Pincus & Co. for 20 years before going into public service in 1975 as New York State Superintendent of Banks, then served stints on the New York State Division of Housing and Community Renewal and the New York State Banking Board. President Carter appointed him comptroller in 1977, where he was perhaps best known for investigating *l'affaire* Bert Lance.

Heimann was one of those bureaucrats pressing for modernization of the banking system. It's archaic, he says: "The financial industry has been segmented by statute; the market has changed dramatically and the laws haven't." Change is overdue, he says, in all three categories of financial regulation: interest-rate ceilings imposed by Regulation Q, which are already being phased out; the ban on interstate branch banking; and the barriers that permit nonbank compe like brokerage houses to offer pro and services banks can't.

A successor had not been nam FORBES went to press, but Washi may not have seen the last of John mann. "I think public service is a noble cause," says he. "I believe i system in which people go into p service and then back to the privat tor. And then maybe back to the p sector."—Jane Carmichael

Former Comptroller John Heimann
Six years was long enough.

A little bounce

It wasn't much—$7.6 million on million in sales in this year's first ter, or a net margin of 1.4%. But Joseph Flannery of Uniroyal, the na fourth-largest tiremaker, won't sco After a two-year torrent of red including a $120 million loss in 1 that tiny profit represents the straight quarter in the black, the since Flannery took over early last and the best Uniroyal has had since 1978. "You can't assume everyth marvelous," he says wearily. "B least we've got some breathing roo

He's still got plenty of problems. en to the wall in the 1970s, by dec auto sales and increasing energy Uniroyal still has $600 million in c

Flannery of Uniroyal
It's nice to have some breathing r

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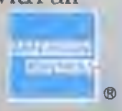

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$100 million more than equity—and $500 million in unfunded pension liabilities. Negotiations are coming up next year with the battered but unbowed United Rubber Workers, who grudgingly agreed to $10 million in give-backs in each of the last two years but may not be as agreeable now. Still, three quarters in the black after five in the red helps.

It required some painful measures. Says Flannery, 49, a 22-year career man at Uniroyal, "1980 was very tough." Two major tire plants closed, 7,000 employees were laid off or fired and the tire product line was reduced by one-third. Now, Uniroyal's portion of the original-equipment market has expanded as its biggest customer, GM, takes up more of the shrinking auto market. That's welcome but hardly planned, Flannery says: "We can't look for accolades in that."

With his $1.1 billion (sales) tire division looking better, Flannery wants to start on Uniroyal's growing chemical, rubber and plastics segments, now over 20% of sales, where pretax profits have risen almost 50%, to $103 million, since 1978. In fact, Flannery thinks these businesses will surpass tires in sales within five years; he's putting 60% of this year's $100 million capital spending budget into chemicals alone.—**Van Wallach**

The health store

Back in the early Seventies Karl D. Bays' vision of multihospital conglomerates and "mergers of medicine and management" seemed pretty far out. "The purchasing agent in hospitals in those days was not a very sophisticated guy," he says. But in the last decade or so, Bays has made believers of a lot of people as chairman and CEO of $2.3 billion (sales) American Hospital Supply Corp. Under his guidance AHSC has had 16% compounded annual growth in sales and 17% in profits since 1971.

With more and more hospitals joining together to benefit from economies of scale (FORBES, *Apr. 13*), a purchasing agent—Bays calls them "materials managers"—can be buying equipment for 30 hospitals in 30 different states. That trend, of course, is largely responsible for AHSC' success, and Bays counts as his company's greatest strength its computerized distribution system,

Scovill's Andrews
"I'm not sure that's the direction we ought to continue."

Faces
Behind The Figure

which now serves 3,400 ho

He lapses into other business from time to time—AHSC is a "o shopping center," he says. "We once described as the Sears, Roeb hospital supplies, but I don't parti like that. We're broader than that. he took over in 1971, AHSC has ac more than 50 companies, most re Abbey Medical Inc.—for $38 r worth of AHSC stock—which bought to move into the growing health-care market.

Kentucky-born, Bays was gra from Eastern Kentucky College i and got into health care three yea when he came to AHSC as a sale "The kind of thing that really tu on," he says, "is when you know prolonging someone's life." Th keeping up that 17% growth.—**Ja**

The unbalancing act

When Malcolm Baldrige took ov vill Manufacturing in 1962, it v sentially a sleepy New Englan mill. When he left in January to b Ronald Reagan's Secretary of merce, it was a $900 million cong ate. His successor, though, thinks tuning up is needed. "Mac built

company with a good deal of de-
lization," says William F. An-
49, Scovill's new chairman and
"But I'm not sure that that's the
on we ought to continue."
year's recession hit Scovill in two
major businesses—housing and
otive. Scovill also did badly in its
g business; last year it lost about
lion on an estimated $15 million
s.
rews thinks his big opportunities
two recent acquisitions—Yale
which is moving into electronic
s such as programmable door locks
ed by plastic cards, and Bellows
ational, which makes pneumatic
nent. Both fit in with one of Sco-
ast-growing divisions: pneumatic
ation devices.—**Stanley Ginsberg**

n second thought . . .

John Bremridge ran $922 million
Swire Pacific, cornerstone of Hong
Swire Group trading company, he
talk a surprisingly anti-free-mar-
ne. As a member of the British
y's legislative council, Bremridge
for residential rent controls and
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t month the 56-year-old Bremridge
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a position, it would seem, tailor-
o introduce such liberal reforms.
ow he suddenly seems to have
d his mind. A consumption tax?
ns, no: "Consumption in Hong
s not nearly so conspicuous as in
New York or the [Arab] Gulf

acific's John Bremridge
on said it all.

10:17 P.M.

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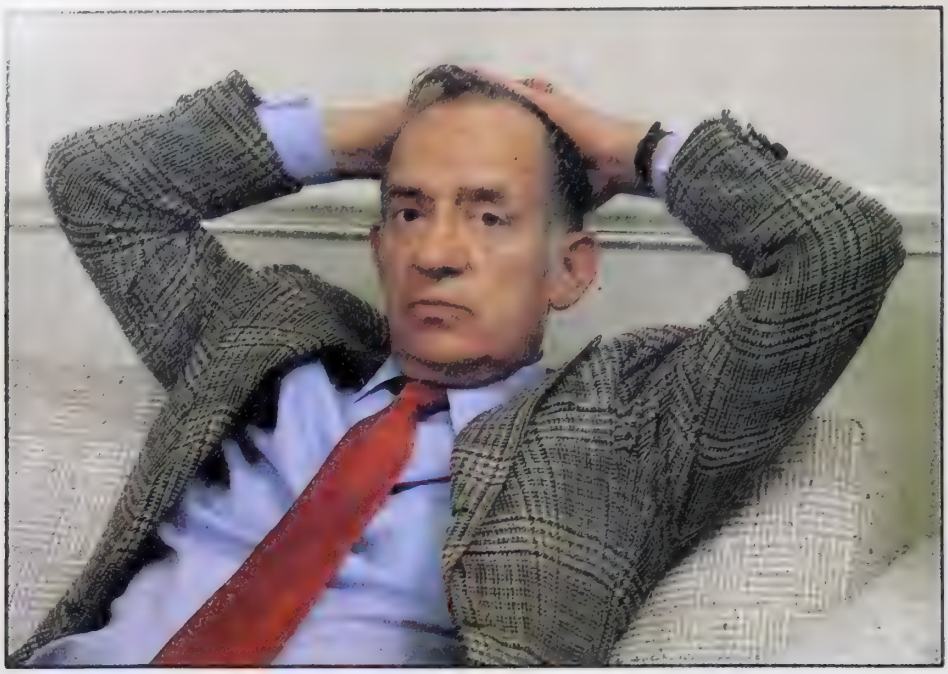

GPU negotiator T. Ludlow Ashley
Look on the bright side.

States. The Chinese are more sensible." Business regulation? Hong Kong's government policy, he says, "has been positive nonintervention. Wise men don't change successful policies."

In the eyes of many a businessman, the colony is already beginning to look a little like a welfare state. Government spending this year may reach 22.4% of gross domestic product, compared with 15% seven years ago (when Swire was enjoying some of its headiest growth).

Why did the leopard change his spots? "A [foolish] consistency is the hobgoblin of little minds," Bremridge intones, quoting Ralph Waldo Emerson. "Life moves on. Things change."—**Barbara Ellis**

Brother, can you spare $1 billion?

After two years, General Public Utilities still doesn't know where to come up with the $1 billion needed to clean up its Three Mile Island nuclear plant. It has however come up with some high-powered, and high-priced, talent to try to raise it—former Ohio Congressman Thomas Ludlow Ashley.

The veteran Democrat, who represented Ohio's Ninth District for 26 years before being swept out in the Reagan landslide, is spending six months trying to put together a $700 million package to help finance the cleanup. Ashley is being paid $20,000 a month, more than GPU Chairman William G. Kuhns, who gets $230,000 a year.

"It's a lot of money, but it's about what it would have cost us to hire a well-qualified lawyer," says Bernard Cherry, GPU vice president for corporate planning. "We were at a total impasse. We needed an honest broker to get things moving. Lud has an excellent record in resolving complicated energy issues, and he was a major player in creating Carter's National Energy Act."

If Ashley pulls it off, it may be money well spent. His task is to raise the $700 million from the nuclear industry, the federal government, the states of New Jersey and Pennsylvania (where the holding company operates its three electric utilities) and GPU itself. The remaining $300 million will come from GPU insurance. Says Ashley hopefully: "I am convinced we can put together a package within six months—I hope sooner."—**Paul B. Brown**

Down the rabbit run?

Is Bob Guccione taking Penthouse International public? Or merely suffering from creeping respectability? Neither, says Mark Meagher, 49, who formally resigned as president of the Washington Post Co. Jan. 5 and came to Penthouse last month to fill the newly created job of president and chief operating officer. "This company has reached the point where it needs a full-time professional manager," Meagher says. "I'm going to run Bob's business for him—at his request."

Penthouse, probably the country's most profitable magazine, brings in $11 million in revenues every month. Can't Guccione sit back and let the money roll in, particularly since he owns Penthouse International lock, stock and barrel?

As it turns out, though, there are a few things to occupy Meagher's attention. One is the planned $175 million Penthouse hotel-casino in Atlantic City, for which Guccione will need financing and thus Meagher's credentials. Penthouse's gaming license probably won't be ob-

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Behind The Figure

tained without difficulty; allega have been made that the compan links to organized crime. Meagher s isn't so: "I spent a month talki people before I took this job, and say the man's clean."

Too, while *Penthouse* magazine's c lation stands at a healthy 4.3 millio lineage was down 8% through while archrival *Playboy's* was up 2%. Meagher: "People go out and plunk $2.50 for *Penthouse* every month. *Pl* is still half subscription and it's be an advertiser's medium." Of co that's the name of the magazine g and if pressed, Meagher concede "Sure, I'm jealous of their advert revenues, but by God we're going to both ads and circulation."

Guccione also has just launched Productions International (named f three-year-old futurist magazine, w outside skeptics to the contrary, house claims broke into the black w its first year). Omni Productions wil duce a TV science series this fall. In Guccione seems to be traveling the pire-building road Playboy's Hefner took a decade or so ago. The pitfalls down that road, as Hefne learned. So Meagher's services m needed.—barbara Rudolph

Meagher of Penthouse International
Running Bob's business.

Personal Affairs

dited By William G. Flanagan

Bogus degrees

ere has been a lot of clucking in orporate, government and media rcles lately over the Janet Cooke the Washington *Post*. After all, has ground a lot of pepper into a ves over the years. But there is a essage in Postscam for anyone es any hiring: Beware the attracume. The manufacture of bogus ic credentials is a problem of proportions, from which no y or institution is immune.

t an idea of how widespread the is, what companies and schools g about it, and how to con- FORBES spoke to educadhunters, company per- executives and others. some findings.

difficulties and pressures eople face in beginning their cand the weight given to certain and schools, are making liars out ncreasing number of job appli- The M.B.A. degree, the high oint average, the Ivy League del do, indeed, influence employ- should be looked at carefully.

M.B.A. is the most questionable al in a resume," says Carl Menk, t of Boyden Associates, a New cruiting firm. Boyden, like many ng firms, will routinely check redentials even if the client specifically ask, although it may ck out some other academic de- With senior-level people, the cord is far more important than demic credentials," says Menk.

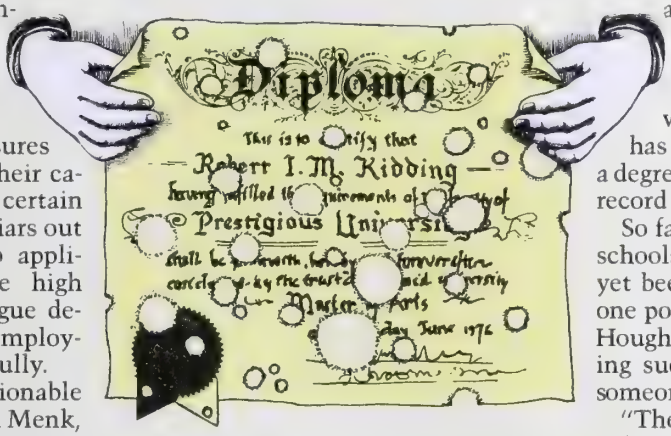
plicants are aware that the better g the credential, the greater the od it will be checked. "Most degrees people put down on reare not from the prestigious but the more obscure, East Poariety," says William Battalia, t of Battalia & Associates, anead-hunting firm. "The assump- you aren't going to check the school about the degree, whereas vard M.B.A. screams out to be ."

ia also notes that there is more dency toward "embellishment" tright manufacture of degrees. ight put down that you were in 10% of the class on the assump- t no one would check it, and right. It is hard to check something like that—certainly not just over the phone. But beyond entry level, the value of such things fades."

• A lot more checking of academic credentials is going on now and a lot more is likely to come. "I would guess that 80% of all major companies verify what is on a resume," says Ron Pilenzo, president of the American Society for Personnel Administration.

Some companies are using outside services to check the credentials of people they actually hire (not of all applicants they interview, however). One such firm is the National Credential Verification Service, in Minneapolis. "Our staff is well trained, especially in the cases of false degrees," notes Megan Maloney, sales director. "Some colleges give you the opportunity to cross-check through years of attendance, or even by Social Security number. If we cannot confirm a degree, we notify the company, not the individual."

Rarely does a company have to force an individual to resign if he lied on his resume. "We've only had one case here," says Jay Murray, manager of human resource development and recruitment of Johns-Manville, in Denver. "It's usually the performance that shows. Someone just can't do what he or she should, based on the degree."



But firing isn't inevitable. "You may have a situation where someone is fully qualified, but dropped out of college because of family, money, whatever, but has picked up the equivalent amount of training," says Murray. "We do have tuition aid, and sometimes there is room for negotiation."

Many companies, however, require applicants to sign statements on their job applications that any false information is grounds for dismissal. Aware of this, when caught, the employees resign. "Companies often feel they cannot keep a person because of that breach of contract," says Murray.

• Colleges welcome checking despite the headaches it spells, because they need to protect the integrity of their degrees. (Alumni associations tend to be a bit more flexible, however, especially with famous near-alumni.) "We encourage companies to inquire about Stanford degrees on applications they get," says Robert Houghton, associate registrar at Stanford. "And more and more companies are doing it all the time."

Yet colleges have to be careful about how they verify credentials. An error could cost a job to an applicant who is a bona fide alumnus.

"We try to give the benefit of the doubt to the candidate," says a spokesman for the University of Wisconsin, Madison. "We don't want someone claiming he lost a position because of a misunderstanding in checking his or her records."

To that end, many schools are reluctant to give out information over the phone. Columbia, for example, will only answer inquiries written on company stationery and insists that the company state the purpose for seeking the information. A full transcript requires the alumnus' signature—a practice at many schools.

Colleges almost never bring action against people who falsely claim degrees. A school may ask the company for the name and address of a bogus applicant, then write to him or her that "someone has been inquiring about your having a degree at our university and we have no record of it."

So far, that's about all the action most schools will take. "No legal action has yet been taken by Stanford against anyone posing with a Stanford degree," says Houghton. "But we're presently discussing such a case, to get a court to stop someone claiming a degree."

"The school can't go after all the individuals who claim credentials that don't exist," says a spokesperson from Columbia. "We must get five or six a week on which the claims are false."

• Ironically, the bogus degree can be most damaging to an individual long after it has lost its value. "In the beginning of a career, the phony degree can be a plus to someone who didn't go to a name school, or maybe didn't graduate," says Boyden's Menk. "But as the years go one, the measurement is on what's accomplished. So the padding of degrees makes less and less sense. Middle managers, 35 and up, are fools to do it. The sad case is the guy who pads early in his career just to get ahead. Now he's 50 and it comes out he never went to the school, and there is a big scandal—after he has already demonstrated he can do the job."

"We knew of a woman with ten years' experience in a major package goods company," says Howard Bratches, a partner of Thorndike Deland Associates, a recruiting firm. "She was an admirable performer but probably hadn't finished high school. She created an M.B.A. The lie was caught accidentally—she was not applying for a job elsewhere. She was not

Personal Affairs

fired, but was too embarrassed to stay. Ten years down the drain."

Company size has little to do with the likelihood it will check all credentials. General Electric, for example, does little. "We don't really need to check credentials at entry-level campus recruiting," says a GE spokesman. "They have to forward a transcript at the interview. As for top management, except in rare cases, we grow from within. The vast majority of other hires are in the hourly rate ranks, where academic degrees don't have to be checked. The in-between category comes from agencies—those we only spot-check."

Pilenzo, of the American Society for Personnel Administration, cites the case of one billion-dollar St. Louis company that does not verify claims of employees. "That's amazing to me, since it is a highly technical organization and it has a large manpower department."

• The truly determined academic thief can probably get away with it, at least initially. Some applicants pore over yearbooks for alumni of selected schools for graduates with the same name and age. One personnel executive who "wouldn't take anyone's word for anything, not even my wife's," grudgingly admires the lengths to which some charlatans will go. "Claiming a degree from a school that no longer exists is so simple it's brilliant," he admits.

• The pressure to invent or embellish one's academic background is likely to worsen. "A Harvard M.B.A. at 23 is going to get a job a lot quicker and make a lot more money in a hurry," notes Battalia. "And if you line up ten guys, and nine are from Podunk and one from Harvard, you can bet the Harvard guy gets the job. But 15 years from now, it won't make a bit of difference."

Indeed, the chief executive officer of a top industrial company is much more likely to have attended a midwestern school than one in the Ivy League. A study of 1,000 top industrial companies some time ago showed that 202 top executives owed allegiance to Ivy League undergraduate schools; 200 came from midwestern schools; 359 came from a mixed bag of schools around the country; and 239 went to schools abroad or to no college at all.

"For companies that attach a lot of significance to brand-name schools versus digging in and looking at a total curriculum," says Murray of Johns-Manville, "the bogus degrees can be a problem. They only perpetuate the pressure. But when you come right down to it, it is irrelevant to job performance."

Murray offers this advice if you yourself have been claiming a bogus degree: "Just come and 'fess up. You'll get much better treatment as a result."

Indeed, there appears to be a lot of latent sympathy for the degree thief once he has been exposed. "Dr." Bob Harris, a talented weather forecaster on New York radio and television, admitted his advanced degrees from the University of Buffalo were phony. He was quickly out of a job. But almost instantly he was rehired by other stations; today he is more popular than ever.

Tax-free dividends

Tax-favored dividends from corporations? It's not a Reaganomic notion but a long-standing fact, as investors in many electric utilities know. The reasons are complicated, and have to do with utility accounting procedures. But quite a few electric power companies, and some other corporations as well, pay dividends to their stockholders that are tax-favored. The dividends are considered a return on capital, and so are tax-deferred.

What happens in practice is that the stockholders pay only a partial tax or, in some cases, no tax at all on the dividends received. But the cost basis of the stock owned is reduced by the value of the tax deferral. For example, let's say you own 100 shares of Plentya Power, priced at $10 per share. It pays a $1 dividend this year, which is 100% tax-deferred. You pay no tax on the $100 in dividends. But for tax purposes, your cost basis for your stock is now $900, or $9 per share, since you have received a "return of capital" amounting to $1 per share. If the stock of Plentya Power should go to 11, a sell, you would have to pay taxe gain of $2 per share, not the $10 at you purchased the stock.

Each year the list of companies a extent of tax-favoring vary. But those whose 1980 stock dividend 100% tax-favored are the followin gor Hydro Electric, Cleveland Elec luminating, Detroit Edison, Fairch dustries, General Dynamics, Glol & Accident, Green Mountain Long Island Lighting, Newport El New York State Electric & Gas, Edison, Pennsylvania Power, Penn nia Power & Light, Rochester Electric, Sundance Oil, Toledo and Virginia Electric Power Co.

In addition, there are other com whose 1980 dividends are substa tax-deferred, including some ver electric utilities: Commonwealth (92%), Middle South Utilities Portland General Electric (63%), Service Electric & Gas (79%) a Diego Gas & Electric (95%).

For an updated list of compani offer fully or partially tax-deferre dends, write Bache Halsey Shields, Inc., Dept. P.C., Bache 100 Gold Street, New York, N.Y.

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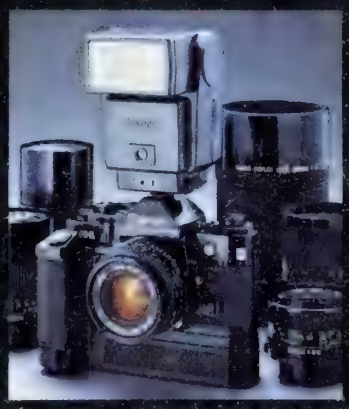

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Personal Affairs

hang glider. And while you won't break any speed records (most ultralights travel at 30 to 50 mph) or leave any contrails (most planes usually fly under 1,000 feet), you won't go broke, either. A brand new, top-of-the-line ultralight costs about $4,000. And they are very gentle on gas. Indeed, in many respects, ultralights are to regular, fixed-wing aircraft what go-carts are to passenger cars.

But as Icarus discovered, anytime man takes to the air, there can be hazards. So it is with ultralights. And the trouble begins on the ground. With the market so unregulated that neither licensing nor plane certification is yet required, a number of kits on the market worry some enthusiasts. And there is concern that eventually the long wing of the FAA may cover the fledgling industry, perhaps smothering it.

But for the meantime, at least, fans are having a ball. "Flying an ultralight is truly *flying*," says Michael Markowski, a Harrisburg, Penna. engineer. "It's not a Cessna. It's something the average guy can touch, feel the wind, and then store in his garage. It's like flying through the sky in a chair."

As the name implies, the craft on average weighs a scant 150 to 200 pounds and consumes an average of only three gallons to five gallons of fuel for a two-to-four-hour ride. And you don't need an airport to take off.

But you can't take it up every day. Because of its light weight, gusts, cross winds and even slightly bad weather can be especially dangerous to ultralight flying. When there are winds of 15 mph or above, it's a good idea to head for the barn. Similarly, as you could conceivably be forced to set down because of engine failure, it's not a good idea to fly anywhere near large bodies of water or population centers.

But on a clear, windless day, owners maintain that soaring above desert or prairie in an ultralight offers exhilaration that cannot be matched in a general aviation plane.

But note: Ultralights are still aircraft and they are therefore bound by the same rules of the air—the way, say, that bicycles are bound by traffic laws. So flying near airports, or creating a low-flying nuisance in the city or suburbs will get you grounded just as quickly as if you have been flying a Piper. Even now, the FAA is drawing up guidelines for where and when ultralights may operate. In fact, the FAA notified at least one manufacturer that his models appear to be more plane than ultralight and might require FAA certification.

Indeed, ultralights are used for more than joyriding. Farmers find them very useful for checking crops, fences, counting herds and other chores that would take a lot longer by pickup truck.

While no formal flight training is necessary to take off in an ultralight, it would be foolhardy simply to buy your plane, read the instruction manual and take for the skies. It takes a great deal of skill to get the hang of it. John Chotia, of Weedhopper of Utah, Inc., one of the pioneer ultralight manufacturers, insists: "The toughest people to train are professional pilots. They are concerned more about speed than about winds and weather conditions."

Most dealers have scheduled training

The Weedhopper aloft
"Flying through the sky in a chair."

programs for both experienced and neophyte fliers; training can take as little as a day or up to four days, depending upon the plane, the dealer and your learning ability and experience.

Caution as well as training is required. "I don't know of any major manufacturer who hasn't had someone killed or injured in one of his planes," says John McCornack of Pterodactyl, Ltd. "But it's no more dangerous than general aviation flying, motorcycling or scuba diving. All require the same caution and good sense."

Most ultralights are sold in kit form, and many take up to 75 man-hours to assemble, including drilling, boring and other time-consuming steps. There are some newer models, however, that take only about 50 hours and are largely bolted together.

Manufacturers of ultralights are springing up practically by the day, and ing among their wares requires study. Markowski suggests, whe check them out, that you note ho they have been in business, how dealers they have and if the dealer flight training. It's a good idea to c current owners of the planes you of course, to see what their exper have been. And, for good measur might contact the Federal Aviatic ministration to see if it has any ments on a given plane.

Here is a list of some of the older prominent manufacturers. But nev are cropping up all the time. So complete listing write to *Glider Ride* 6009, Chattanooga, Tenn. 37401, May 1981 directory issue, at $2 a Or write to *Ultralight Flyer*, P.C 98796, Tacoma, Wash., 98499. (subscription is $6.)

Weedhopper of Utah was one first ultralight manufacturers o scene. For $3,400 you can get a k the company says can be asse into a plane in an average of 50 using only normal hand tools. Fc John Chotia says he has sold over kits to date, with over 700 sol year. The engine for the Weedl was designed by Chotia himself. are 72 dealers in the U.S., and Ch developing a training school for hopper customers in Utah. Cost v $300 for four days. Write to Wee per of Utah, Inc., Box 2253, C Utah 84404. Information kit is $

Eagle is a complete craft availa assembling at $3,995. There are 11 ers worldwide for the manufa American Aerolights, of whom th est group are airline pilots. Larry man, president, says his compar produced over 1,000 to date and rently manufacturing 140 units a n The Eagle has a "flying wing" in and has a Japanese snowmobile for power. Newman says his deale not sell someone a plane unless the agrees in the contract to be instruc a dealer, who is trained by the con Contact American Aerolights, 70 manche N.E., Albuquerque, N.M. There is a $1 handling charge f brochure.

Pterodactyl, Ltd. has two ultra the Fledgling and the Ptraveler, ava for $3,600 and $3,900 respectively McCornack says he has delivered date, most powered by a 429 cc C engine. Monthly production, M nack says, is currently 50 a month. are about 75 dealers. The plane with training manual but McC strongly recommends getting instr from a licensed pilot or ground in tor. Write to Pterodactyl, Ltd., Bo Watsonville, Calif. 95076 for broch

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Personal Affairs

ıging from $3,300 to $4,200, de- g on your choice of engine and con- . Cuyuna or Yamaha racing-cart is offered. Larry Cook, co-owner, e company is producing about 200 nth and has sold 2,600 to date ı 120 dealers in the U.S. Twenty r more are needed to assemble the Write to Eipper-formance, Dept. Linda Vista Drive, San Marcos, 2069.—**Gerald Odening**

Loose ends

anufactured homes are provid- ing the only alternative for a growing number of home buy- .979, for example, mobile homes ed for 28% of all new single-fam- ne constructions. (The average western states that year was , compared with the $70,000 a site-built home nationally, or 0 in such choice sunspots as n California.) Note: The lot ı manufactured home is built is rented, for an average of $80 to er month, depending upon the es offered by the mobile home They could include swimming nnis court, etc.

obile home may not suit your out the trend toward them could an investment opportunity. One y, Angeles Park Communities, is usiness of acquiring land for man- ed home communities, primarily Sunbelt states and the Pacific est. It is offering limited partner- invest in those communities. ım investment is $5,000, and in- must have a net worth (exclusive e, furnishings and autos) of at 0,000 and an annual gross income ast $30,000. Write Angeles Park nities Ltd., 1888 Century Park s Angeles, Calif. 90067 for fur- ails.

a silver lining in the drop of you're a holder looking to take a loss. According to Brennan Re- mmodities, unlike stocks, can be l repurchased right away and the ts his capital loss. (The IRS pre- ıch wash sales with stocks unless it 30 days to repurchase.) So, if e capital gains that you want to especially short term—and paper ı gold, you can take your capital gold now, and buy gold again at ne same price you sell it. The only expense is likely to be the transaction cost—*i.e.*, the selling and buying. But you should be able to negotiate a favorable rate with the buyer based on the fact you'll immediately re-buy.

Two things to keep in mind, however, should you sell and buy right away: One, the commodity should actually be delivered as part of the deal. Don't leave your gold in a bank safe-deposit box all the while and just shuffle papers. Two, a reasonable amount of time—a few hours or so—should transpire before your repurchase to establish that there was some market risk. Otherwise the Internal Revenue Service might not allow you to take your capital loss.

Conventional mortgages on houses are disappearing faster than copper plumbing. There is now an alphabet soup of alternative mortgages—GPM (graduated payment mortgages), VRM (variable rate mortgages), SAM (shared appreciation mortgages), etc. A dandy little brochure that explains these and other mortgages (including the FLIP, RRM and RAM) is available for $2 from RTI, Inc., P.O. Box 27331, Denver, Colo. 80227. Cost is $2. . . . *The Real Estate Book* by Robert L. Nessen (Little, Brown & Co., $12.95) is likewise indispensable for today's mortgage shopper—be it a home for living or investment, a single or multifamily, condo, co-op or apartment house. It is a welcome, up-to-date account of real estate wisdom in today's economic climate that goes well beyond the "check the basement for leaks" type of advice found in too many similarly named books. It answers sophisticated questions you might need years of experience to know enough to ask.

Serving yourself gas, instead of going to the "full-service" lanes at filling stations, obviously is a bit of a money-saver. But how much? Runzheimer & Co. of Rochester, Wis. recently surveyed the differences in price charged at full-service and self-service pumps, and came up with some significant findings.

In 12 major U.S. cities, the difference in price for unleaded regular at self-service and full-service pumps ranged from 5 cents to 14 cents per gallon. (The price-per-gallon of gas ranged from a low of $1.30 self-service in Denver to $1.49 full-service in Atlanta.) The average price difference was 10 cents per gallon. Thus, if your car gets 18 miles to the gallon and you drive 20,000 miles a year, you can save about $110 a year on fuel by pumping your own gas.

Small wonder fleet owners are now actively encouraging their drivers to get out and pump their own gas. On a fleet of 500 cars, the annual fuel savings could be $55,000 on 18-mpg cars driven 20,000 miles each.

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NEW ISSUES April, 1981

$400,000,000

J.C. Penney Company, Inc.

$200,000,000

Zero Coupon Notes Due 1989

Price 33.247%

plus accrued amortization of original issue discount from May 1, 1981

$200,000,000

6% Debentures Due 2006

Price 42.063%

plus accrued interest from May 1, 1981

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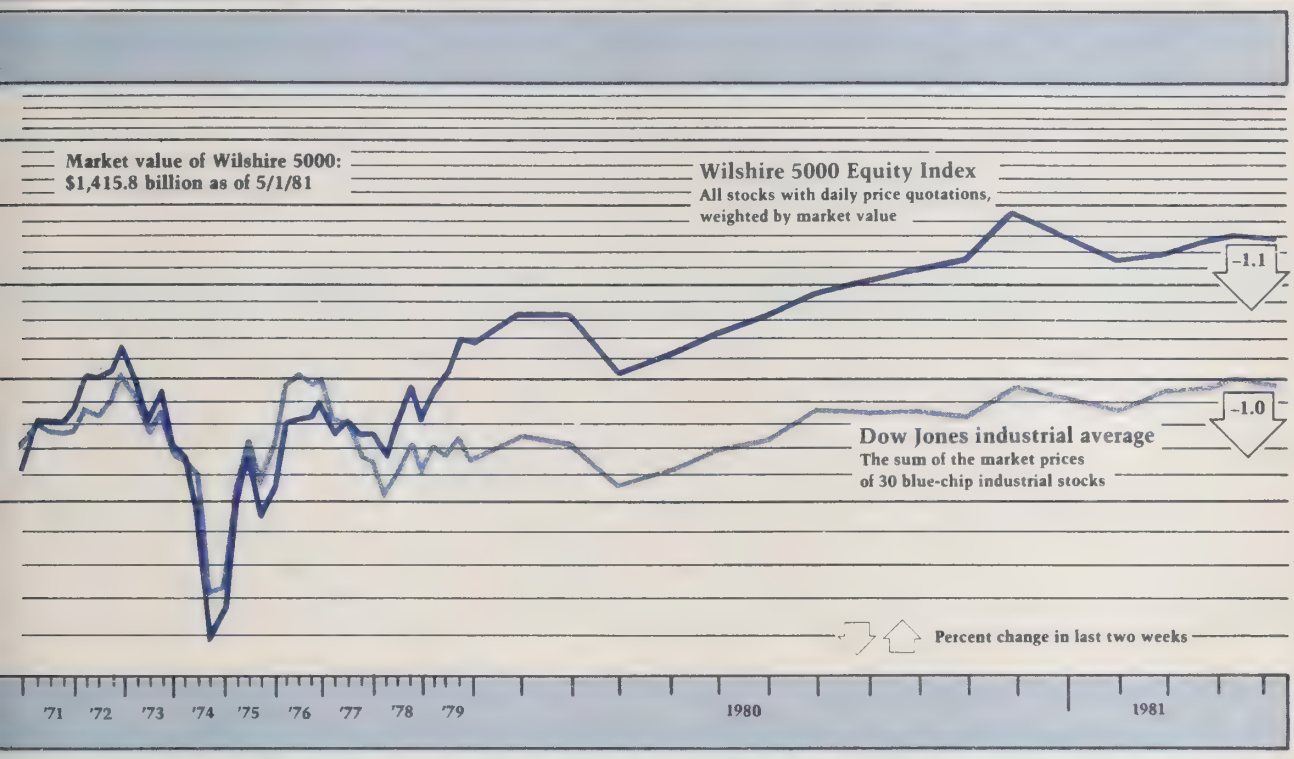
The Forbes/Wilshire 5000 Review



still a flip-flop market. One week, when traders ır a round of good news about inflation or interest es, the averages surge ahead. Then, the second the ıdlines turn sour, a selling deluge hits. The message: estors are confused; they change their minds with ry wiggle of the economic indicators. Not an atmo- ere likely to produce any solid price gains.

Over the past four weeks, both the Wilshire and the Dow ve marked time. The only real advance came from SDAQ stocks, which gained nearly 2% in value. The E, meanwhile, led all markets down—dropping by %. Over the longer term, however, the smaller stocks were clearly the place to be. Over-the-counter investments have increased in value by better than 50% during the past 52 weeks. That's twice the gain of a typical NYSE stock.

Still, for a dose of reassurance look at the 52-week performance figures broken down according to investor yardsticks. It has been a challenge to find a loser. High volatility, high P/E shares have nearly doubled. Nearly all other issues have moved up by 30% or more. Even stocks with fat dividends offered total returns of over 20%, when income and price appreciation are combined. How do you beat inflation? For the future, who knows. But over the past year, Wall Street was practically a sure thing.

Close-up On The Equity Markets

Performance of five leading indexes

cent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
ast 4 weeks	-1.1	-1.1	-1.8	-3.5	1.9
ıst 52 weeks	30.6	22.8	27.8	39.8	54.5

Stock performance based on five key investor yardsticks

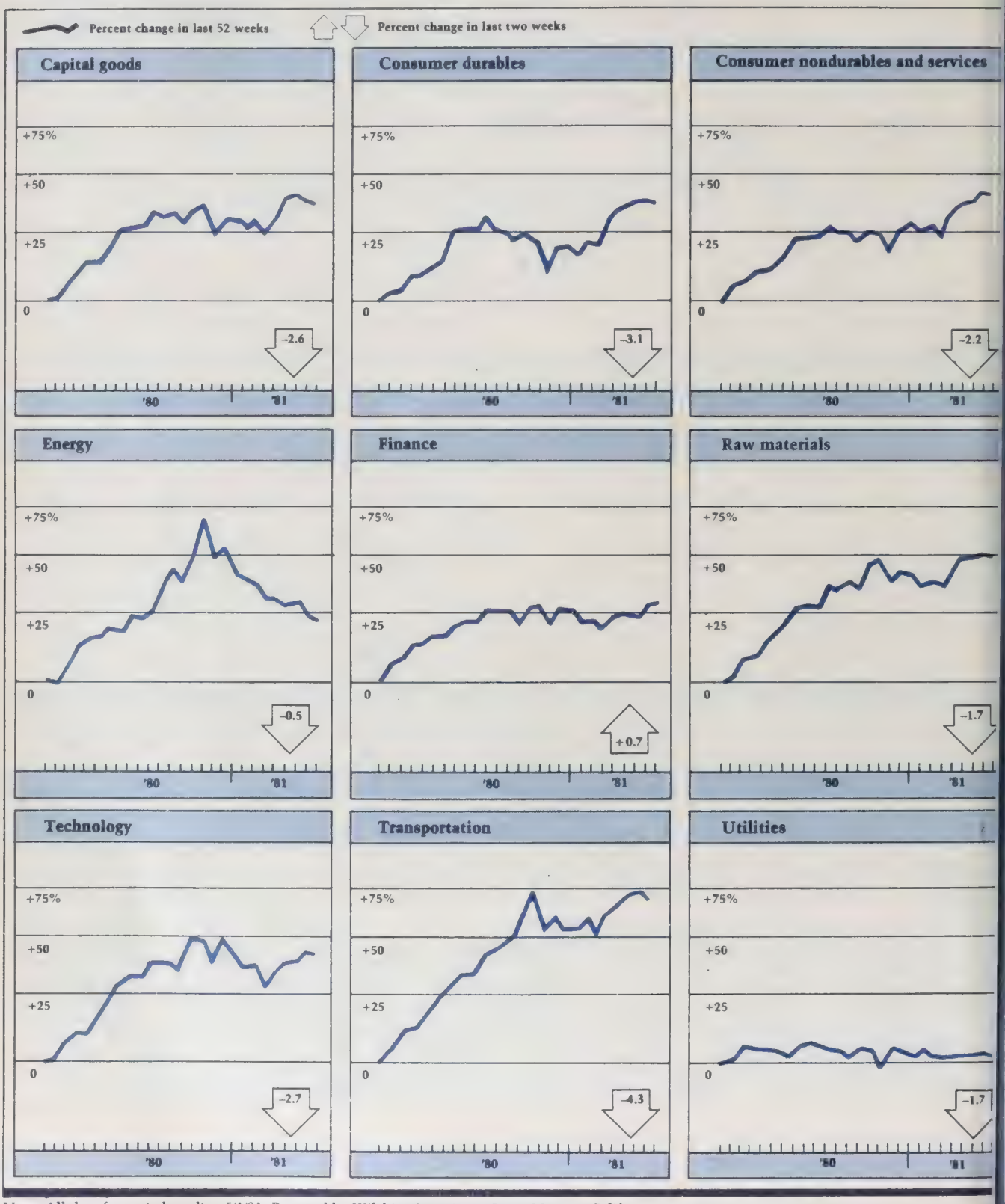
cent change	Volatility *		P/E multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
ast 4 weeks	2.4	0.7	0.1	2.7	0.8	2.7	2.6	1.0	-0.6	4.0
ast 52 weeks	86.6	21.3	80.8	40.5	15.7	65.1	72.1	33.8	39.5	66.6

ck's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
antitative evaluation of a stock's growth image, determined by Wilshire Associates.

All data for periods ending 5/1/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Don't ask your broker, buy his firm. Takeover fever hit the securities business—and that accounts for the only gain in a round of industry group figures dominated by profit-taking. Finance stocks were up just slightly, however, while several recent winners took a drubbing. Energy companies, though, did relatively well, and there are signs that their six-month decline may be ending.

Transportation stocks, for example, led the mark down—and the graph of their performance over the past ye leaves an ominous trail. Twice now, these companies ha hit the line that marks 75% annual gains, and twice th have failed to advance further. On the plus side, however, t 50% gain line looks even more clearly like a trading botto So the graph marks tentative buy and sell levels.



Note: All data for periods ending 5/1/81. Prepared by Wilshire Associates, Santa Monica, Calif.

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NEW ISSUE

April 23, 1981

$250,000,000

Aluminum Company of America

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Price 48.362%

plus accrued interest, if any, from April 29, 1981

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Warburg Paribas Becker
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Wertheim & Co., Inc.

Dean Witter Reynolds Inc.

Bankers' willingness to use industrial development tax-exempts for private purposes is a game that's getting out of hand.

HOW TO KILL A BUSINESS

By Ben Weberman

THERE'S A BIG difference between routine ingenuity and wretched excess, but I fear that some investment bankers involved in the tax-exempt bond market are rapidly losing sight of it. In theory, interest on industrial revenue bonds justifies its exemption from income taxes because the money raised serves public interest. But, in fact, some bankers have been increasingly willing to bend the device for patently private purposes of considerable magnitude and the game is clearly getting out of hand. Chances are growing increasingly good that the privilege itself, which has been a boon for some, will be sharply curtailed for all.

We have all heard tales of tax-exempt industrial revenue bonds being sold to provide funds for bank branches, corporate headquarters and even country clubs and health spas. On top of these comes word of the following: An investor took over a commercial building and converted it into a condominium. Each floor was established as a separate unit of the condo. Units were then sold to others, with the purchases financed through tax-free industrial revenue bonds.

Legal? Yes, despite the fact that Congress has imposed a limit of $10 million on any single industrial revenue bond issue. It was to get around that limit that the office building was broken up into single-floor units for resale. All that was needed to give the scheme a veneer of "public purpose" was to have the user of the facility assert that jobs would be created.

The fact that Congress provided a limit on the size of an individual issue shows its awareness of the potential for abuse. Indeed, hoping to restrict the beneficiaries of IRB financing to small companies, the limit had once been as low as $5 million per issue. (Quite a lot of K mart and McDonald's locations got built that way).

The present $10 million limit does not prevent huge projects from financing through IRBs. Consider the $289 million IRB sold Apr. 28 by the Industrial Development Authority of Pima County, Ariz. Proceeds—nearly 30 times the congressional ceiling—are to be used by Tucson Electric Power Co. to build conventional generating and transmission facilities. These are *not* tax-exempt pollution control bonds, which have specific congressional authorization for, presumably, social purpose and public benefit. These are straight IRBs.

They achieve their tax-exempt status through Section 103(b) 4 of the Internal Revenue Code, which allows a utility that serves solely a city and a contiguous county to raise tax-free capital, provided that the power generated is not distributed more widely. Just about every utility, of course, interconnects with neighboring utilities in the national power grid. But that proved no obstacle in Pima County. The Internal Revenue Service helpfully ruled that the interconnect is maintained for emergency purposes, not for the regular sale of power over a broad area.

Some investors are already nervous about such tax-exempt borrowings. To satisfy skeptics, Pima-Tucson put in a clause requiring redemption within 180 days if a court should decide that as a result of failure by the company to perform or observe any covenant, agreement or representation, the interest payable became taxable.

There are limits to Congress' tolerance of abuse of the tax-exempt privilege. The business of selling revenue bonds to help finance mortgages on single-family houses, first conceived four years ago, was a multibillion-dollar-a-month calendar of offerings. I when it became evident that hon selling for more than $100,000 w financed that way for buyers earn more than $60,000 a year, the soc purpose seemed to diminish.

Similarly, a feeling is growing t there may be no way to confine benefits of small industrial rever bond issues to small companies. Af all, Ralston Purina Co. has used m ey raised that way to build a ski sort. And, not to be left out, n comes IBM, which did its first t free financing when it sold $26.5 m lion of pollution control rever bonds through the California Pol tion Control Financing Authori The interest rate: 10.12%, with bonds priced initially at 99 on a 1 coupon and maturing in 2001. Co pare that 10.12% tax-free return w about 14% that would have to be p on a new taxable bond issue of IBM

As yield comparisons show, IR have been a lark for companies t can get them issued and for invest who can buy them. But all of us, course, are paying for the fun. T growing volume of these offerings driving up interest rates for all t exempt borrowers. And for the l affluent among them, the price can steeper still. How many commu ties, after all, are as solid as a rever bond ultimately backed by IBM?

Another warning

I have had numerous reports brokers who promote original-iss deep discount bonds as a vehicle which to make long-term capi gains. They aren't, and investors h better be sure on the point. The an al accretion of price is counted by IRS as *interest*, not capital gain, and such is subject to tax on interest.

Don't think you can get away wi out reporting the accretion on y income tax return. The issuers m file a Form 1099 OID (for Origi Issue Discount) with the IRS at end of the year telling the agency w received how much accretion. T IRS is using its computers to mat 1099s with income tax returns. If y don't report the income, your chan of being called in for review are hi If, as a taxpaying individual, you w to buy deep discount bonds, do mess with these original-issue ne comers. Buy an older issue that h sunk to a discount as interest ra have climbed. If you get appreciati on *those*, it counts as a capital gain a isn't taxable until you sell the bond it gets called. ■

Ben Weberman is economics editor of FORBES *magazine*

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If it were not for the steep decline in all energy-related stocks, the market averages would easily be at alltime highs.

POLITICAL ECONOMICS

By Heinz H. Biel

IT IS UNFORTUNATE that economics is such an inexact science, if indeed it is a science. The forecasting record of the practitioners in this field is abysmal, probably as bad as that of stock market gurus. But it is not just that. The basic problem is that economists have no way to *prove* their theories will work in practice.

Now we have President Reagan's economic program, which is being promoted to the hilt. David Stockman, one of its major proponents, seems to be extremely confident that the three 10%-a-year tax cuts will increase savings and investment, enhance productivity, reduce unemployment and inflation and eventually balance the budget. It sounds like the long-awaited panacea for all of the nation's economic problems. *But will it work?*

Some respected economists who have the same right to be taken as seriously as the proponents of the supply-side theory, have doubts. They believe we are putting the cart before the horse, and that most people will spend the tax-relief money rather than save it; that, since the federal budget will remain deeply in the red, the tax cuts will merely accentuate inflation. Well, who is right?

The trouble is that you can't prove either side. The skeptics, who look askance at the Reagan program, are supported in their doubts by the reaction of the free market. The bond market tells the story without equivocation: Triple-A Bell Telephone bonds now yield 16¼%, a new high. Evidently, inflationary expectations are as strong as ever.

The stock market, on the other hand, seems to like what is being planned in Washington. If it were not for the steep decline in all energy-related stocks, the market averages would easily be at alltime highs. But so is the British stock market, despite the sad state of that country's economy. Could it be, perhaps, that the British have given up hope that Mrs. Thatcher's program will succeed; that they believe that inflation will not be contained and that, therefore, in the long run it is better to have stocks than to have cash? Could it be that similar thoughts are the underlying cause of our own bull market?

One of President Reagan's first actions was the immediate removal of price controls on oil. This was supposed to be especially beneficial for the domestic producers. But then Sheikh Yamani glutted the world oil market in his effort to force fellow OPEC members to agree to accept the present Saudi price of "only" $32 a barrel and to assuage the oil importing countries.

The sudden "glut," caused by the combination of a high rate of production and worldwide reduction of consumption, put a crimp in the boom of energy stocks. There were no more inventory gains; refinery margins melted away; marginal wells lost their luster; there was growing belief that the prodigious drilling activity might subside and even that the construction of synfuel plants might once again be put on the back burner. Thus it is not surprising that stocks of oil producers and refiners, of drillers and oilfield suppliers, and of construction engineering firms took one hell of a bath. Most probably the selling has been overdone, and if you are an investor (for a year or longer) rather than a trader, this might not be a bad time to do some buying in this group.

One stock that was hit by a double whammy is *Fluor Corp.* (42), which is believed to have the greatest expertise in the building of synthetic-fuel plants. Just when enthusiasm for synfuel began to wane, Fluor mac mind-boggling bid for *St. Joe Mine* Some people believe that the pric over $2.5 billion is too high—m too high—just as Sohio's bid for I necott and Standard Oil of Cal nia's bid (now dropped) for AMAX believed to be very rich. Howe Bob Fluor is not a suicidal ma bent solely on aggrandizement reg less of cost or consequences. He i outstandingly successful entrepre (FORBES, *Mar. 30*). From its high c six months ago Fluor has decl more than 40%. Enough is eno While the stock may have adva too far too fast, like most other e gy-related stocks, I would be a b of Fluor around the 40 level.

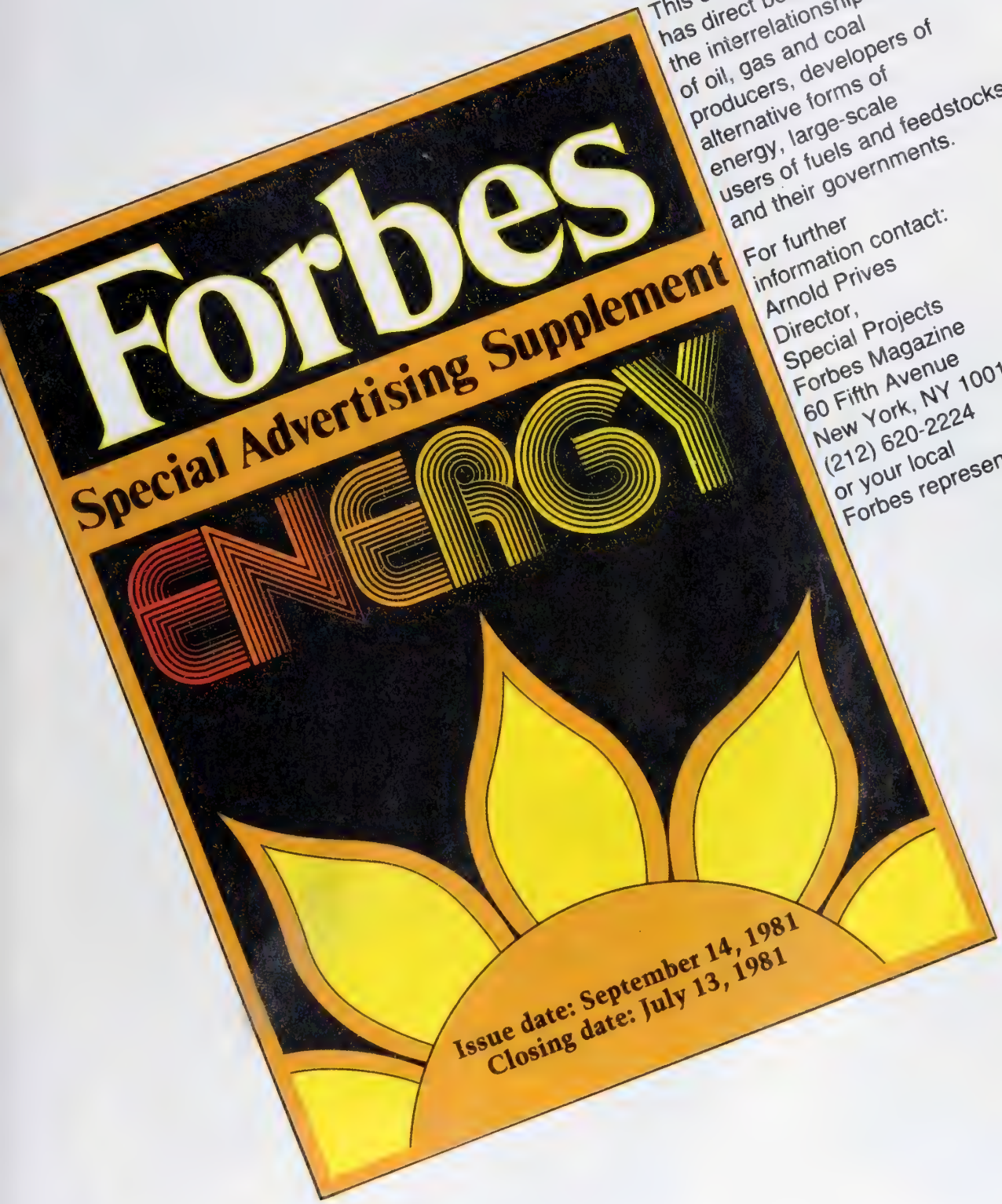
Investors seem to have been di pointed in *Penn Central's* first-qua earnings report of $1.01 a shar should be noted that this is *aft* deduction of $24.7 million (al $1.15 a share) in lieu of income ta which Penn Central does not pay won't have to pay for years to co The pending acquisition of GK In tries is only the beginning, not end, of building up the new Penn C tral. If the stock should extend retreat, say into the upper 30s, I w reiterate my buy recommendatio

Even in the world of mundane b nesses there are gems whose re will put many sophisticated h technology companies to sha *Masco Corp.* (40) is one such gem single most important product is cets, of all things. Can you thin anything less glamorous? Mas many other products also are not l ly to stir your imagination as m the splitting of genes or the makir computers for the home. Yet, Mas results are extraordinary.

Of all the NYSE companies that over 20 consecutive years of incre in sales, net income and earnings share, Masco has the highest an per-share growth rate for the pe 1959-80, a remarkable 29.7%. W not immune to the vagaries of business cycle, this company's s and profits just grow at a slower p in periods of recession. Because o exceptional record Masco's credib is high, and when management s "We expect sales to more than do from internal growth alone by 19 and that Masco "is and will conti to be a unique growth company believe it.

The stock sells near its alltime l and at a multiple of 12 times cur earnings. But true gems don't c cheap. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.



This supplement has direct bearing on the interrelationships of oil, gas and coal producers, developers of alternative forms of energy, large-scale users of fuels and feedstocks, and their governments.

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If you think gold, platinum and diamond prices will drop further, you don't know what goes on in certain smoke-filled rooms.

WHERE IDEOLOGIES MEET

By John Train

THE British Broadcasting System and its publication *The Listener* have revealed some surprising facts, with bullish implications for gold, diamond and platinum prices.

To hear the Russians excoriating the South Africans in the U.N., or the South Africans proclaiming that they are the last line of defense against the godless legions of the Kremlin, you might think that Moscow and Pretoria were not on speaking terms. That, if true, would be bad news for investors in diamonds, gold and platinum, of which those two countries are the dominant producers. But money talks louder than dogma. Off camera, *The Listener* reports, the racist exploiters and the atheist imperialist ogres sometimes work closely together.

In the mid-1950s, *The Listener* says, after the Russians first started producing commercially important amounts of gem-quality diamonds they hired De Beers to market their output. After the Sharpeville Massacre, the Russians tore up the contract. The Third World cheered. However, the Russians went on selling through De Beers. But not all their output: As a bargaining tool, they have also made it a practice to sell maybe 20% of their stones on their own.

This collaboration pays well for both sides. Since between them they produce by far the largest part of the world's diamonds, they both have every incentive to keep prices high.

In a private dining room in London's Connaught Hotel De Beers Chairman Harry Oppenheimer and his aides have secret meetings with the Russians, according to *The Listener*. At one, Oppenheimer sat beside Boris Sergeev, deputy president of the Russian diamond marketing organization, which picked up the tab. Russian negotiating teams confer in secret with De Beers officials at the company's offices in Kimberley and in London.

But more than diamonds is involved in the Soviet-South African dealings. Professor John Gutteridge, who has excellent sources in both camps, described an Oslo meeting between the Russians and the South Africans at which the Russians revealed that they were restraining platinum sales so that the market would stabilize, doubtless expecting that South Africa would follow suit. And each May, Russian and South African representatives join at the Platinum Dinner, held in a room in London's Savoy Hotel by British dealer Barry Salter. What goes on in this smoke-filled room? Since there are only two platinum mines in South Africa, Rustenberg and Impala, which together with the Russian mines produce virtually the entire world supply, it would be easy enough to enforce a common strategy.

The BBC televised one of these Savoy Hotel meetings. Some time later, the principal Soviet delegate was himself interviewed about the Savoy meeting. The encounter went approximately like this:

INTERVIEWER: "Do you deny that this meeting took place?"

SOVIET DELEGATE: "Imperialist elements in the West are trying to defame the achievements of the Soviet people."

Of even greater interest to American investors than those diamond and platinum deals, however, is evidence of Russian-South African collaboration in gold pricing. Here again, the dominant producers, although mortal enemies, have a common economic interest in higher prices. If politics were to triumph over greed, the Russians could gravely wound South ca by dumping gold, whose conti high price is the underpinnin South Africa's power. You can your last dollar this won't happe

In respect to gold, the BBC pub tion reported that John Osman, correspondent in Moscow, recog at a November 1980 Bolshoi pe mance of *Boris Godunov* two top from the Oppenheimer headqua in Johannesburg. One of the two Oppenheimer's former son-in and a possible successor as chair of Anglo-American, Gordon Wad a member of the four-man team runs the entire Oppenheimer ation. The BBC correspondent man then discovered that the South Africans were at the ballet two Soviet officials.

An innocent entertainment? I be, but a former official of Consol ed Goldfields, Ian Wright, specu to *The Listener* that both the Wa mission to Moscow and an earlie by a team from Consolidated C fields were to determine "wheth was possible to conduct an or market along the same lines a Beers has done so well in diam There would be nothing officia tween the two governments. T could not be. . . ."

It is thus no accident that Mo and Pretoria have been following allel gold marketing policies, cu back on sales to firm up the price

In the course of checking out subject, I telephoned the De Bee fice in London. By a pleasant co dence, while we were talking, a c ney voice in the background sho to my informant, "Moscow on line!" There was a brief, slightly barrassed pause. Then my man sa the person in the background: " it yourself." After this exchange rest of the conversation lost s thing of its point.

A bit earlier, while in London, lunch at Rothschild's, the cent the bullion-dealing business. Tw day the price of gold is establishe a handful of dealers seated at des their celebrated "fixing room asked my host what he though these BBC revelations. "Are you prised?" he asked, smiling tolera "When the Russians have busine do, they do it like anybody else hear from their bank in Zurich larly, just as we hear from banks."

My gold-trading host nodded added, almost patronizingly: " would you expect?" ■

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters *and* Dance of the Money Bees.

notice striking similarities between the nd market today and the stock market the final phases of the 1974 bear market.

LAST CHANCE THIS CENTURY

By Richard B. Hoey

I PERSONALLY believe that the peak in long-term interest rates reached during 1981 is likely to stand for at least the next century. The bond market is currently in the final stages of both a 40-year-old secular bear ket and a 4-year-old cyclical bear ket.

m starting to notice striking simties between the bond market toand the stock market in the final es of the 1974 bear market. First, collapse in prices has made many le question the validity of investn these vehicles at all, except for t-term speculation. In addition, investment institutions are deng the bullish portfolio managers promoting the portfolio managers 've built their careers by being tical and bearish. There are early s of "client panic" among the ion fund sponsors; some of them verriding the investment policies noney management firms that been prematurely bullish on the l market.

actically every bond investor in nation has a loss on his investt portfolio. Bond salesmen awake morning with the thought that clients have lost money on evning they've bought from the men for the last 40 years. As l prices break to new lows, more more investors are tempted to w in the towel and take their s. Like the stock market in late , the bond market today is ner- and illiquid, with large day-to-price fluctuations.

nother crucial similarity is that as the institutional investors back away from buying into a weak market, individual investors, who are willing to take a somewhat longer view, are becoming the buyers of last resort. The bottom in the stock market at the end of 1974 was signaled not by an improvement in institutional sentiment but rather by the emergence of persistent buying of high-yielding utility stocks by individuals.

You need the courage of a mountain lion to buy into the final phase of a severe bear market. At the beginning of September 1974, the Dow Jones industrial average was down to 683, and lots of stocks looked cheap. But the market dropped another 100 points within a month. Then it soared 300 points in little more than a year. But it was easy to be terrified in early October 1974 as the stock market slid through 600 like a hot knife through warm butter.

It's never obvious until after the fact where the exact bottom of a major bear market is. But late in a bear market, you can begin to get a conviction that prices are so low that opportunities for long-term investors are really becoming superior. That's the phase the stock market reached in late 1974, and that's the phase the bond market is in now.

We're not sure exactly when the fall in bond prices will end, although we're partial to May 20, 1981 at 3:47 p.m. (about two weeks after regular subscribers receive this issue). But we do know that tax-exempt bonds with the longest maturities are currently yielding 12%, and that corporate bonds are yielding 16% to 17%.

It's currently fashionable to believe that double-digit inflation is here to stay, but we believe that the odds are very good that inflation will be running at a single-digit pace over the next year, over the next five years and over the next ten years. If so, bonds purchased near current levels are likely to be exceptional long-term investments. But if you want to speculate in the futures market, you're on your own. A one-week surge in the money supply could wipe you out.

Investors should take care in buying bonds in the current market to learn the call provisions of the bonds they may wish to purchase. If you are going to take the risk of buying bonds in a weak market, you want to be able to enjoy a high yield for an extended period of time.

There also continue to be sound values in the stock market. *Ralston Purina* (13), for example. The great pet-food war, which broke out in 1977, is beginning to abate, and the company's laggard restaurant business is beginning to improve. Strong gains are likely in Ralston's grocery operations. We expect that the net result will be a rise in earnings per share from $1.45 in the fiscal year ended September 1980 to $1.70 in fiscal 1981 and $1.90 in fiscal 1982.

If you're willing to live with the risk of buying a chemical company with a lot of operating leverage in order to get maximum exposure to the expected upswing in synthetic fibers, buy *Akzona* (13). This company earned only 40 cents in 1980, but could earn $1.50 in 1981 and $2.75 in 1982. The financial record of this company is very volatile, but it is likely to benefit from a powerful earnings surge over the next two to three years.

Archer-Daniels-Midland (20) is a cyclical growth stock that should be able to generate a trend growth rate of about 15%. With sugar prices weak, the stock has been laggard. For patient investors willing to move into an out-of-favor company at a reduced price, the stock is a good investment. Earnings per share were $2.03 in 1980 and should rise to $2.64 in 1981 and $3.30 in 1982.

Ogden Corp. (36) has been able to compound earnings since 1969 at a 12% to 13% rate, with gains reported in every year. Fully diluted earnings per share were $3.99 in 1980. Paced by strength in shipbuilding, earnings per share should rise by about 20%, to $4.85 in 1981 and by 30%, to $6.45 in 1982. At about 5.5 times 1982 estimated earnings, the stock is attractively valued.

We continue to like *Combined International Corp.* (21). This insurance company earned $3.53 last year and should see earnings grow to $3.90 in 1981 and $4.70 in 1982. The company yields over 7% on its $1.60 dividend and sells at less than 5 times estimated 1982 earnings. ■

rd B. Hoey is a vice president, economist investment strategist at Bache Halsey Shields.

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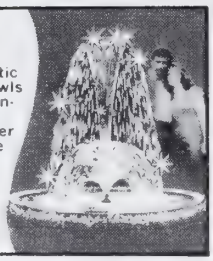

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Charts give a very clear picture of price movements, which even the most confirmed fundamentalists will admit.

A NECESSARY TOOL

By Stanley W. Angrist

No one knows for certain how long technical trading methods have been used, but presumably they have been around about as long as there have been organized markets. Traders have sought, in vain of course, the perfect trading system—that is, a system that permits one to remove large profits from the market automatically and consistently. The idea is as intriguing as it is elusive.

The single most widely used tool that technicians turn to first is the bar chart. It has a number of advantages, the most important of which is that it is the simplest of all charts to make and interpret; it also takes but a few minutes a day to keep current.

Along the vertical side of a piece of graph paper is marked a price scale, while on the horizontal scale are marked the trading dates. For each trading day a vertical line is drawn from the high price for the day to the low price for the day. A short horizontal bar is then drawn extending out to the right from the line at the closing price of the day. Each day a new line and bar are drawn.

But do you really want to keep your own charts? Most traders do not. They prefer the convenience, accuracy and compactness provided by a commercial chart service. Furthermore, a subscription to a chart service is rather inexpensive. At least compared with the other costs incurred in commodities trading.

Five commercial commodities chart services have come to my attention. The features of each service are briefly described here as well as its subscription rates. The services are alphabetical order.

The *Commodity Chart Service* (1 Liberty Plaza, New York, N.Y. 10006) the oldest of all the services. Chart sizes are not standard. These charts would be extremely difficult to update daily because the maximum-size chart is about 5 inches by 7 inches and many are smaller. Several contract months are offered for most commodities. Cash price data is also given—as well as volume and open interest for each commodity. Two moving averages are charted (ten day and a front-weighted combination average) for major commodities. The service also provides a computer trend analysis for most commodities showing resistance and support areas. A one-year (weekly) subscription $265; a three-month subscription $90 and a one-issue trial is $7.50.

Commodity Perspective (327 South LaSalle St., Chicago, Ill. 60604) probably the largest service in terms of subscribers. It is a chartist's chart service. That is, the charts are large (9½ inches by 12 inches), and are designed to allow subscribers to update their charts daily. Charts are provided for almost all months with substantial open interest. Each main chart shows price data for the previous 33 weeks while weekly charts look back for 1[illegible] weeks. Volume and open interest data are provided as well as graphs utilizing 4-, 9- and 18-day moving averages, relative strength index and a trading tool known as the "Trend-A-Lizer" provided to aid traders. Sixteen charts for popular spreads are also given. A one-year subscription (weekly) $295; a three-month subscription $100. This service will provide a free sample copy on request.

Commodity Price Charts (219 Parade, Cedar Falls, Iowa 50613) is another comprehensive chart service. The charts, however, vary in size and would be difficult to update on a daily basis. Charts are provided for more than one contract month. Volume and

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

n interest data are also provided. e service provides point and figure rts for the more popular commod- s. Some spread charts, cash price rts and basis charts are also given. e usual 4-, 9- and 18-day moving rage charts are provided for a num- of commodities. A table of com- ments of various-size trades is pre- ted. Weekly charts are mailed on a rterly basis to subscribers. A one- r subscription (weekly) is $250; a ee-month subscription is $75. A gle-issue trial is $7.

unn & Hargitt's Commodity Service). Box 1517, Lafayette, Ind. 47902) he lowest-priced service of those er review. The charts are present- in two sizes, 6½ inches by 10 nes and 6½ inches by 4½ inches. possible to update these charts on ily basis, but in some cases scale blems would be encountered. Vol- e and open interest data is pro- ed, as are optimized point and fig- charts. In most cases only the rest contract is charted, though on asion the next month out is also ted. Charts go back for six nths, while the weekly charts, wn as insets, go back for a year. first two pages of each issue con- comments recommending action a number of commodities that n to be getting ready to move. A -year subscription is $95; a ten- k subscription is $18.25.

raphix Commodity Charts (30 West shington St., Suite 1432, Chicago, 60602) is the newest of the chart ices described here. This service rs its charts in two colors, which kes them particularly easy to read. charts are large (9½ inches by 12 nes) and though several contracts charted, only the nearest month is able for updating. Cash prices, dai- olume and open interest data are ented as are 4-, 10- and 18-day ving average charts. Each four ks, subscribers receive a set of ad charts; each eight weeks they ive ten-year weekly continuation rts of the nearest futures con- ts. A one-year subscription (week- s $325; three months is $110. A le-issue trial is $10.

ll of the rates quoted above in- le first-class postage. Charts are nded to be received on Monday ning, but whether that happens or depends mostly on your local post ce. Most services will ship special very for another $2 per week. Any ne above chart services would be id to a serious trader, even if they e used but infrequently. ■

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A financial panic is coming. Here are three signs that will announce its arrival.

THE IMPORTANCE OF FEAR

By Ashby Bladen

I HAVE BEEN predicting that we are heading for a financial panic in this country. How will we know when the crisis is upon us? Here are three things to look for:

1) New highs in interest rates, as overextended borrowers try to bid liquidity away from each other.

2) New peaks in personal and corporate bankruptcies, including a couple of spectacular examples of the latter.

3) Not a slippage, but a real crash, in house prices.

We are getting close. Long-term bond yields are at record highs. (That Michigan Bell Telephone issue came out at 15.93% and then broke three points!) Bankruptcies are rising, too. Housing prices are still holding firm in parts of the country, but they are softening in others.

As a financial manager, I am in the peculiar position of plumping for a financial crisis because I do not see any other way of avoiding hyperinflation. Accelerating inflation was the inevitable consequence of the political policies of the last 20 years. That inflation can be broken only by a financial crisis. Otherwise, it is virtually certain to end in hyperinflation and the destruction both of our present financial system and of the accumulated savings that are held in the form of financial claims.

That is why I consider the Reagan Administration's attempt to do something decisive about the inflation to be of crucial importance. It has the best chance since the Eisenhower Administration to break the inflation. If it fails, inflation will surely get muc worse before another such opportun ty develops. At the moment I am ba ing my investment strategy on th assumption that the Reagan polic will not fail, and that both our fina cial system and our savings will com through somewhat battered an bloodied, but undestroyed. Howeve the Administration has elected to us only one of the two possible weapon against inflation.

I am of two minds about the A ministration's proposals with respe to taxing and spending. I have argue that most people are not quite as flex ble and responsive as economist A thur Laffer implicitly assumed whe he asserted that a 30% cut in incom tax rates would cause us all to work s much harder and earn so much mo that in three years government re enue would actually be up, not down regard the Lafferite element in th Administration's policy as a despera gamble that could backfire and se ously worsen the inflation.

On the other hand, the Administr tion may not really have a choi about taking the chance. There is n question that current income ta rates constitute a serious disincenti to productive efforts. I recently calc lated what I earn by writing this co umn, after the federal, state and ci governments have taken their cut c the top. If I were doing it just for th money, I wouldn't be doing it.

And it seems clear that our Ame can system of self-levying incom taxes is beginning to break dow While the statistical data on the su terranean economy are necessarily i direct, inferential and unreliable, it obvious that a growing number people have had it with paying i come taxes, and are opting out of th system altogether. I doubt that mar people who have learned that you ca get away with evading income tax will go back to paying them just b cause the rates are cut, but it do seem essential to reduce them befo

Ashby Bladen is senior vice president-investments for the Guardian Life Insurance Co. of America, and author of How to Cope with the Developing Financial Crisis.

ybody disappears into the subter-
an economy.
any case, the federal government
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ce the personal and corporate sec-
ability to borrow and spend ex-
vely through what is usually
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r to call liquidity policy. There is
uestion in my mind that this Ad-
stration will steadily encourage
Fed to pursue a restrictive policy.
is essential to realize that the no-
that Fed policy is capable of being
y tuned is an illusion because the
that makes it effective is fear. As
as financial managers like myself
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ncial crisis.
my book I described the process
which the prices of the currently
ular inflation hedges get pushed
ar with too much credit, and then
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it crunch. I showed how this had
pened to convertible bonds in
, to conglomerate stock prices in
-70 and to the leveraged REITs in
-75. I concluded that the next
localized financial crisis would
articularly severe because the cur-
ly popular and overleveraged infla-
hedge was clearly houses.
to repeat, the early signs of an
tion-breaking financial crisis are:
rd highs in interest rates; new
s in personal and corporate bank-
cies, and a crash in house prices.
this checklist in mind when you
the paper during the next few
ths. ■

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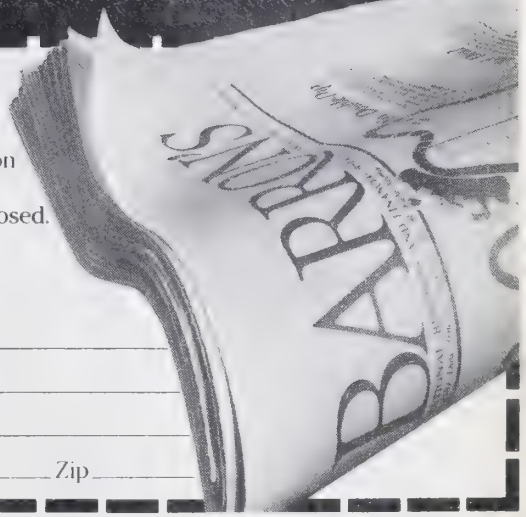

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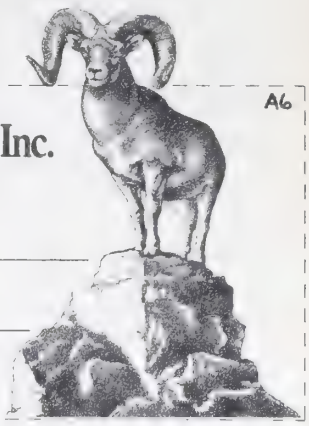

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Don't blame investor greed and stupidity for the steady growth of shaky and unproductive tax shelters. Blame Congress.

THE FUTILITY OF SAVING

By Srully Blotnick

TAX HAVENS are nothing new. Neither are tax shelters. But I've never seen the investors in my sample so concerned as they are now about being audited as a result of having sheltered or off-shore income.

Are these investors being greedy or stupid? Not at all. They are simply reacting rationally to a tax system that mindlessly punishes the prudent, the thrifty, people who invest rather than spend. This is convincingly demonstrated in a report recently done by Price Waterhouse for the Office of Economic Research of the NYSE.

The report, entitled "Tax Policy Incentives to Capital Formation," shows clearly that corporations are given approximately the same tax treatment here they'd receive in Japan, Canada or the principal European economies. In other words, our tax system does not punish the corporation. What it does to the individual investor, however, is something else again. Even countries that we consider semisocialist often treat the thrifty better than we do.

Using the assumption that the individual in question receives an annual salary of $50,000, has a (nonworking) wife and two children, has medical expenses of $2,000, and pays real estate taxes of $2,000, mortgage interest of another $2,000 and miscellaneous interest expense of $1,000, Price Waterhouse made a country-by-country comparison in order to see where he fares best, or worst.

It will surprise few readers of Jerry Flint's incisive article in the Apr. 27 FORBES, that Sweden takes by far the largest portion of *earned* income, about 62%. The U.S. is in the middle, with 26%—$12,900 of the $50,000. Italy, Japan and West Germany are the next lowest, taking 25%, 24% and 20%, respectively. But the lowest of all will surprise many: It is France, where the government grabs just 11%—$5,700 of the $50,000.

When investment income of various kinds is added to the picture, it changes in a way that is decidedly detrimental to U.S. citizens. The U.S. is in the middle when it comes to taking away its citizen's salary and earnings; it is close to the top in seizing dividend and interest income and capital gains. If in addition to his $50,000 salary our hypothetical individual receives $10,000 in dividends on the stocks he owns, Sweden again takes the most, a whopping 82% of it.

But guess who's next? We are. The U.S. takes 47% of it. In fact, the U.S. and Sweden are the only two countries in the sample that treat dividends as though they were interest income. The other countries give dividend earners a tax break, by crediting them with a certain portion of the tax the corporation paying the dividend paid on its income. That results in a true tax credit for those who collect dividends, since if the stockholder's credit exceeds the tax liability on his dividend income, he can apply it against his other tax liabilities.

Japan and Britain—yes, Britain—take nearly 40%, less than the U.S. does. Canada, Italy and West Germany take significantly less: 23%, 21% and 14%, respectively. By the way, the lowest once again is France, which wants only $390—about 4% of the dividend income.

The second kind of investment income our hypothetical taxpayer receives is interest. Assuming he collects $5,000 in interest, that money is taxed at a marginal rate, which is over and above that imposed on the $60,000 ($50,000 salary plus $10,000 dividends) already recorded. Swe naturally, takes the largest bite: 8 Three major economies take 50%: Japan, Canada and the U which want 60%, 57% and 53% spectively. France isn't the lo this time, but is in second plac only a small amount. Italy wants of the $5,000, France, 21%.

Capital gains generally receiv vorable tax treatment in every c try in the sample, with Sweden ta what, for it, is a piddling 39% o assumed $34,000 gain—Britain, ada and the U.S. in turn take 3 28% and 27%. West Germany France (which only began impo the tax in 1979) each collect 6%. and Japan take nothing at all; a ca gain there is a tax-free profit.

Now let's step back and add all up. What we find is quite shockin is simply this: The U.S. is the country besides Sweden in which tax bite on *total* investment inc exceeds one-third. That has a m more powerful effect on the beha of investors than many imagine, the report, in conjunction with partment of Commerce data, de strates the impact.

The following table compares age savings rates—as a percenta disposable personal income for 1 79—and the tax on investment inc of $49,000. That's $10,000 of dends, $5,000 in interest and $34,0 capital gains, on top of a salar $50,000. Note the decrease in sav rates when read from top to botto

Country	Personal savings rates	Investm incom tax liab
Italy	23.1%	6.4
Japan	21.5	14.4
France	17.2	7.3
W. Germany	14.5	11.8
U.K.	12.2	32.5
Canada	10.3	30.0
Sweden	9.1	52.7
U.S.	6.3	33.5

Source: Price Waterhouse for the N

The inverse correlation bet personal savings rates and investr tax liability certainly is not pe but it goes a long way toward exp ing why the U.S. savings rate is b the lowest of the lot. It also exp why ordinary investors are ta chances with shabby tax shelters desperate effort to hang on to a fruits of their savings. The ince to invest is eroded significantly large a tax burden. Tax chang aimed at *all three* categories of in ment income—can't be put in soon enough. ■

Dr. Srully Blotnick is a practicing psychologist and author of Getting Rich Your Own Way *and* Winning: The Psychology of Successful Investing.

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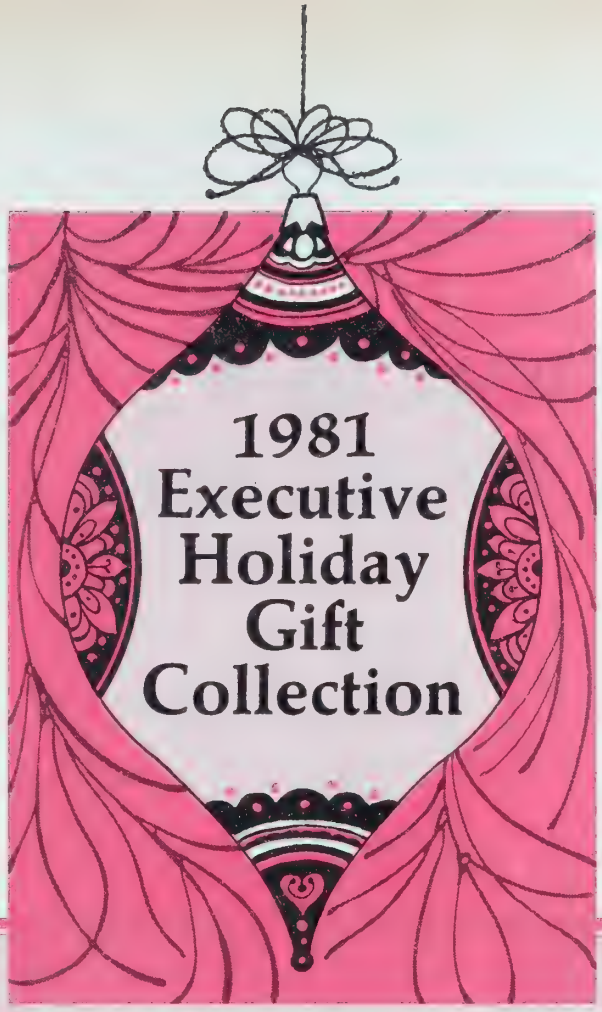

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Ben Graham disciple Bruce Robb runs SAFECO's $1 billion bond portfolio superbly—but if he had his druthers, he'd just as soon be casting his line in other waters.

Portrait of a bottom fisherman

By Dero A. Saunders

GOLD, THE PROSPECTORS USED to say, is where you find it. If you grant that SAFECO, one of the best-run U.S. property and casualty insurance companies, is based in the unlikely location of Seattle, then it's easy to believe that the company has a well-run program for investing its $833 million reserves, mostly in municipal bonds. What is harder to credit is that the man running that program, Senior Vice President and Treasurer Bruce Robb, isn't keen at all on bonds as an investment.

Investing, for an insurance company, is hardly an exercise of unfettered freedom, however. The state commissions that watch over rates and reserves like to feel that funds are conservatively invested and sure to provide a return. Since casualty insurers—unlike life companies—can get full tax benefits from municipals, their portfolios are heavily weighted toward municipals. As of the end of March, SAFECO's portfolio contained bonds, virtually all municipals, carried on the books at their cost of $1 billion. Unfortunately, because interest rates have soared since many of these bonds were bought, their market value today is just $767 million.

Is that bad? Not necessarily, contends Robb. By custom, insurers carry bonds and sinking-fund preferreds on the books at cost, and in practice they nearly always hold securities to maturity. But that's not the point, says Robb: "Are high interest rates beneficial to the lender or to the borrower? I think they are very beneficial to the lender. A little work with a small computer would show you that some 60% to 70% of the productive value of a long-term bond relates to the reinvestment rate on the coupons you receive every six months.

"I used an illustration of our mountain here [meaning Mt. St. Helens] with our finance committee a year or so ago when our bond portfolio was badly underwater. If we bought a City of Portland 6% 30-year bond, are we better off if interest rates do not change at all, so that a 6% bond stays at par throughout its life and produces X amount? Or are we better off if interest rates go up, we have a 30% depreciation in that bond, and we are reinvesting those 6% coupons at 9% or 10% throughout the period? Really, you could light your cigar with the bond at the end, and you would be a lot better off even if the bond defaults in its last year because the mountain has blown and Portland isn't there any more. That's why I say we're perfectly willing to live with this bond portfolio underwater to the extent it is and have the opportunity to reinvest those coupons at much higher rates."

There's a catch, of course: A company must *never* get in such a bind that it is forced to sell depreciated bonds—and that hasn't happened within modern

SAFECO money manager Bruce Robb

"Are high interest rates beneficial to the lender or to the borrower?"

memory. The closest brush w years ago when the stock market forced some insurers to liquidat ties, which are the volatile parts portfolios, valued at market. "W have to sell," says Robb, "and did recovery. That's one reason why plus ratio is 2-to-1 and one of the the industry."

Such sophistication was not thing Robb brought to SAFEC him. Now 61, he had graduate Annapolis just as World War II and was not discharged from th until 1947. "My father had b economist [at the University of ka] and an investor, quite a su one. So I went to Columbia t under Dave Dodd [of the legend ham and Dodd partnership]." B ham gave only an occasional lect ing the time that Robb was a st but his original copy of Grah Dodd's pioneering work, *Security* still occupies a prominent p Robb's office bookshelf.

In 1948, after completing his course work, Robb went to work Street as a railroad analyst fo Dodge & Co. [since merged into Peabody]. He joined SAFECO i His predecessor-boss, Richard C was primarily a bond man. " management thought the comp grown to the point where the have two people [in investmen came out here to manage the c stocks."

Equities are still what turns and he loves to discuss the one SAFECO's portfolio in equities

ave said we're bottom fisher- are contrary-opinion-oriented. ery price-conscious, and I'm of high P/E ratio stocks. For we bought one of our local re- red Meyer, eight or ten years ad a growth rate much better of Sears; it had a price/earnings than half that of Sears. The pled within that time, while reciated 50%. Now I would turn l: Last year we *bought* Sears, It had a very nice yield, and l get itself straightened out one days. It may not be the great tock of the past, but I think e it will sell higher than $18 or re."

ola is another former high P/E t Robb bought for its combina- ld and recovery potential. He is k to sell stocks that he feels their rise: He cut his U.S. Steel n half after the stock had dou- bout 18 months, and recently is holdings of McGraw-Edison when it rose from 36 into the after the end of 1980.

ys find it difficult to enunciate ur approach to common stock investments; it's much easier to say what we don't do. We're not chartists. We're not MPT [Modern Portfolio Theory] people. I'm skeptical of MPT. We're low P/E ratio-oriented. We're not really growth stock investors, though we have a mutual fund—SAFECO Growth Fund—and we do use growth stocks there, such as Omark Industries.

"Yield is much more important, I feel, for insurance company portfolios than it would typically be for an investor. We get an 85% dividend tax credit on common and preferred stock dividends, so that tax treatment of dividends is better than the tax treatment of capital gains. And investment income is the really solid part of the earnings power of an insurance company, because your underwriting results fluctuate from year to year.

"I think we are also very patient investors. We have some stock holdings that we've had for 40 years, such as Weyerhaeuser and SEAFIRST. I have a bit of the philosophy that everything is cyclical; if the earnings aren't cyclical at least the stock prices are. I'm much more interested in looking at the new low list every day in the *Wall Street Journal* than I am in the new high list. We try to analyze companies that may be having some difficulty now but that we feel will straighten themselves out within two or three years and recover."

Robb is proud that SAFECO's equities have outperformed the Standard & Poor's 500 by 37% over the last ten years on a yield-plus-appreciation basis (though they didn't do as well last year: not enough oil stocks). He is also quite aware of his preference for equities. "I have always had a feeling that bonds are a heads-you-don't-win-and-tails-you-lose operation. If interest rates go down, unless you're awful careful you get your bonds called and you're forced to reinvest in a lower market; and if interest rates go up as they have, your bonds deteriorate in price."

But he is also keenly aware of his environment: "An insurance company has some special requirements. The portfolio isn't my individual portfolio. Traditionally insurance companies have all been large holders of bonds, and I think properly so."

Moral: As the circus fat lady said to her good, good friend the dwarf, "Honey, just do the very best you can with what you've got." ■

te sagging profits, stock prices of the big products firms have been moving up An earnings bang is coming. But when right time to buy?

The Streetwalker

Knock on wood

By Thomas Jaffe

ORATE SHOPPERS HAVE been pping up forest products com- ies faster than a lumberjack can uglas fir. Brascan bought into er, Noranda won the fight for a acMillan Bloedel, Abitibi-Price lympia & York Development of nd Murphy Oil has a piece of Meanwhile, Hammermill and International caught the eye of n and Europe's Jimmy Gold- spectively. Southwest Forest .F. Hutton as well as Saul Stein- ral Paper Board, finally, capti- irrepressible Steinberg and Te- minent Dr. Singleton.

This carnival is doubtless far from over. But instead of trying to pick the next backwoods beneficiary of the undervalued asset play, consider instead four giants of the industry—Boise Cascade, Champion International, Georgia-Pacific and Weyerhaeuser. Together they account for more than $16 billion in annual sales, and their performance and prospects are a good indicator of what's really happening in forest products.

Last year these companies' profits suffered from a case of early blight. With the U.S. housing market swooning at 1.29 million starts because of high interest rates and reduced demand, earnings declines ranged from 22% at Boise to 39% at Weyerhaeuser. The Tacoma-based firm also was hit by a drop in demand for logs and lumber from Japan, which in a good year can account for half its income. Even G-P, which posted the Seventies' best gains through skillful diversification into chemicals and forward integration into the distribution of building products, saw earnings tumble 25%.

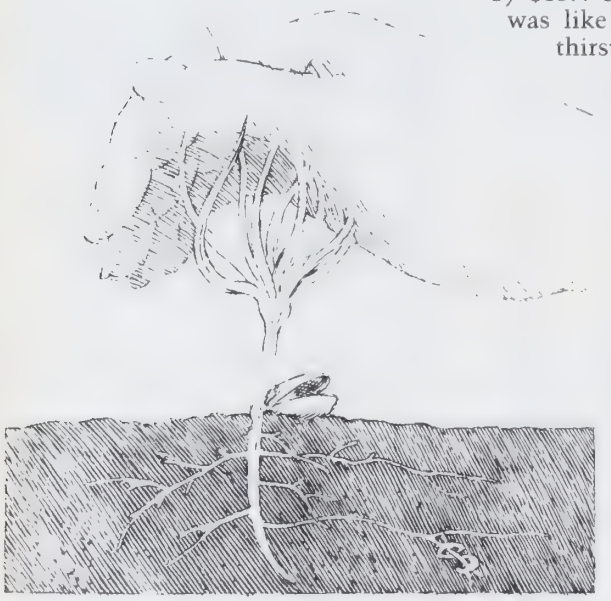
Not surprisingly, all four stocks were stunted, too. Weyerhaeuser did the best—but it finished 1980 up only 7.5% from its 1979 closing price. Earnings in the first quarter were hardly robust: Boise and G-P were flat; Champion slid 41%; and Weyerhaeuser was off by nearly 50%. Still, investors seem to see more than a ray of hope. Through April 1981 Boise's shares advanced by 26%, G-P was up 17%, Champion, up 9% and Weyerhaeuser, up 6%.

Is a comeback in the offing for the housing market? Did all the wise investors jump in at the bottom of the cycle? Maybe. Says H.C. Bowen Smith, forest products and paper analyst for Salomon Brothers: "You go where the biggest bang is, and right now that means these guys." According to Smith, a return to 1.6 million housing starts in 1982 would mean earnings of $6.75 for Boise (up 32% from last year), and $5 for Weyerhaeuser, double the level of 1980. At over 1.7 million starts—the average demand for housing in the Seventies—Smith's estimate for Boise advances to $8

The Streetwalker

Consider the degree of upside leverage the housing market exercises over Georgia-Pacific. In 1980 building materials accounted for $160 million of operating income, *vs.* $434 million in 1978, the year of a near-record 2 million starts. With a return to 1.7 million starts and a rise in lumber and plywood prices, last year's results could triple. Then add in an increase of $80 million or more from G-P's paper-products side—which has been held down by expansion disruptions and a severe margin squeeze last year in the price of wood chips. Result: the potential for a $400 million swing in operating income in just two years. After taxes that becomes more than $2.50 a share. With profits from G-P's other businesses increasing at 15% a year—around its overall growth rate in the Seventies—the company's earnings might hit $5.50 in 1983.

Quite a bang. The trouble is, if housing stays in the dumps that 12-gauge shotgun ends up with about as much oomph as a peashooter. "We've all seen the housing market depressed before," says Lawrence Ross, analyst at Paine Webber



Mitchell Hutchins, "and it's always recovered, right? But with continued high interest rates, fixed mortgages harder to get and variable mortgages coming in, historical analysis is no good anymore. If you're an investor, you may have to ask yourself, 'who needs to play this game?' "

In fact, all but the most stalwart optimists on Wall Street have given up on the notion that 1981 starts will reach 1.5 million or higher. So why the big move in stocks like Boise and G-P? "If interest rates don't come down and the paper sides of these companies stay mushy because of a slow economy," says Smith of Salomon, "you've got to look out to earnings in later 1982 or 1983. At present prices, these stocks appear to offer annual returns on investment of more than 20% over the next 24 months."

But that's a long time to wait. Boise, Champion, Georgia-Pacific and Weyerhaeuser may well give their shareholders a big bang in 1983. However, there's a good chance that these stocks will trade down again relative to the market before the move comes. The longer investors have to wait for a turnaround in housing, the more likely they will take their profits and go where the payoff seems more immediate. Buy the gang of four *then*. Later on they will offer some real double-barreled pump action.

Wall Street fiddles, London soars

Political pundits may still be evaluating Margaret Thatcher's performance, but British investors have made up their minds. In April the *Financial Times* 30-share index, London's version of the Dow Jones industrials, moved up nearly 20% to an alltime high. The *FT*'s broader all-share index also set a record, and the market's total capitalization increased by $15.4 billion during the month. "It was like being surrounded by bloodthirsty Indians when the Seventh Cavalry suddenly comes over the hill," says one gleeful broker.

Of course, there's still no lack of bad economic news. One in ten Britons is now out of work and unemployment is growing. Profits have been cut to—and often into—the bone. Average pretax margins fell to only 5½%. At the same time, the pound soared to highs not seen for a decade, threatening export markets. Prestigious Imperial Chemical (ICI), the IBM of British stocks, was forced to cut its dividend for the first time since 1938.

Still, Britain's economy was deteriorating as it was improving—or at least creating the conditions for possible improvement. "What the market is saying," explains William Bain, a partner with Wood Mackenzie, "is that Mrs. Thatcher's strategy is working—that we are going to have leaner, fitter companies." Keith Percy at Phillips & Drew agrees: "British industry is so depressed that you only need for the economy to do no worse to have improved performance."

Investors realize that high unemployment can mean improved productivity. "Maggie has adjusted things so that now, instead of British Leyland paying people to do bugger all, Social Security is paying them to do bugger all," says Alistair Grant, a partner at De Zoete & "Unproductive workers have shunted onto the national regis the companies' registers. Most nies won't take on any extra labo can help it. So unemployment bad, but companies will do bette

At ICI, for example, profits $616 million last year, just 10 stockholders' equity. But largely it fired some 5,000 workers, th pany reported first-quarter 1981 of $112.8 million. That's still we levels of a year earlier, but a six crease over its previous quarter. prisingly, ICI shares surged over April. Robert Cowel, head of res institutional brokers Hoare thinks they will continue to out the market for another year or so

What stocks have yet to spring Cowel's picks include Unigate, products company; Woolworth, er; and Lucas, an automotive nents maker. Thanks to Nissan sion to build a Toyota factory in Lucas is becoming less depen still-troubled British Leyland. A cas orchestrated a $108 million c ting program, which eliminated its work force.

Another analyst, Phillips & Keith Percy, is also sifting the ru companies yet to shine. He likes son Robinson Group Ltd. and Re national, both packaging and pap panies. Percy is also pushing devastated textile firms, in p Tootal and Coats Patons. These neat geographical spread, he says makes them a hedge against the of sterling.

After the April runup, some are betting that prices will fa Since 1973, the yield gap betwee and government-guaranteed bo called gilts) has averaged 7%. Bu with equities paying 5.5%, th near-record gap of almost 8%. So that back to normal means eithe in stock prices or a rise in bon For short-term investors the C saw "sell in May and go awa again prove apt.

Beyond that, think twice befor a flyer in the Thatcher market. cans who invested in Britain made a substantial windfall prof value of sterling, a new world p rency, soared to $2.44 late last 40%. More recently, however, have been falling and the po backed off. Will it fall further? B has probably been discounted in ent price. But longer term, the value depends mainly on OPEC and on the Reagan Administrat solve to keep the dollar strong. C wrong about those trends cou many a handsome gain in stocks.—**Barbara Ellis**

n, battered and boring, electric utilities languished for years. But recently, some have begun to rage on Wall Street.

Power play?

By Steve Kichen nd Newcomb Stillwell

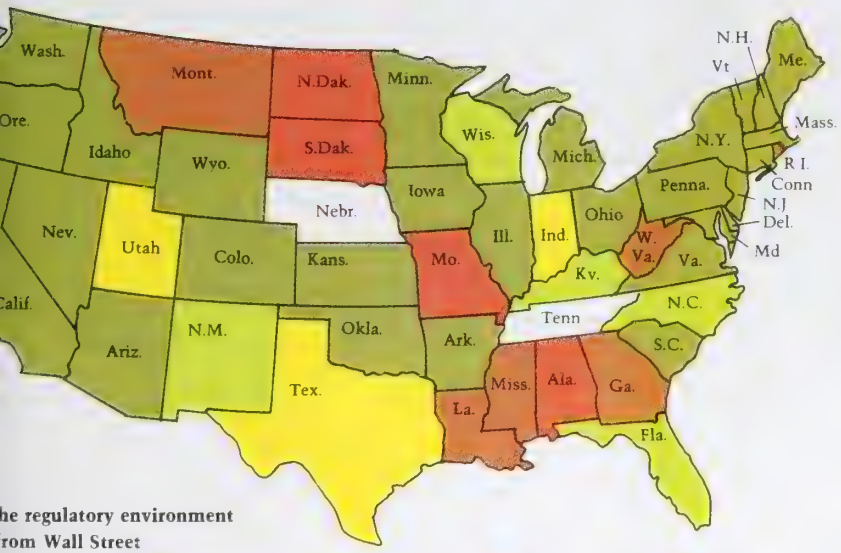
N'T BEEN SO aggressive since " the man says, a little breath- He is John Attalienti, senior alyst at Argus Research Corp., not hard to understand his ex- Squeezed by the cost push of and the demand pull of politi- tivated regulators, the electric mpanies he follows have been but healthy for a long, long nd their slow-growing, high- interest-sensitive stocks have n worse: As interest rates have ever upward, electric utilities have traded down, down, down. . . .

But not any more, thinks Attalienti. The reason? Reaganomics means disinflation means lower interest rates. "We think long-term interest rates are headed on a substantial downward drift, starting in the very near future and continuing into 1982," he says. "That augurs well for utilities. Most are selling at 75% of book value, and we think they'll be back at book by the middle of 1982." That means a 33% *average* gain.

Yield, of course, is but another way of saying dividend, and utility stocks go up not only on falling interest rates but also on rising dividends. Attalienti sees some good news there, too; less inflation and

Rating the regulators

tility commissions determine industry rates of return, so they can affect as much as supply and demand. That's why investors should watch n results and political appointments as closely as balance sheets.



he regulatory environment rom Wall Street

Excellent | Above average | Average | Below average | Poor

nnessee and Nebraska are not rated because these states do not have investor-owned utilities

lomon Brothers

Statistical Spotlight

lower interest rates, after all, are good news for any capital-intensive industry, and electric utilities are no exception. Another big boost comes from the regulators: who are beginning to understand numbers like those in the middle table on page 184, which shows what utility earnings really look like when adjusted for inflation's impact. As a result, they are beginning to realize that historical cost-based rate awards are rather less than adequate, so they are getting more generous with relief. Also, with demand slowing as a result of higher electricity prices, construction plans have been trimmed—good news, since the lower operating costs per kilowatt hour for a new plant are more than offset by higher construction and financing charges, so more capacity means tighter margins. And not just a little bit tighter, either: As the table at the top of page 184 shows, even some of the slowest-growing utilities do a fearsome amount of construction compared with industrials.

"The less growth a utility has today, the better," says Attalienti. "More and more managements are getting it through their heads that there is an elastic relationship between price and demand. And as financial management becomes increasingly predominant over the engineering mind set, more and more are getting it through their heads that they'll have to live with less reserve capacity than in the past." He concludes: "Add it up and the bottom line is better dividends on better earnings and lower payout ratios, with some companies playing catch-up for dividend growth that has trailed inflation in the past." That means 33% *plus*.

So who to pick? As befits a sober utility analyst, Attalienti grows cautious. "Go with quality," he says, "companies that can weather a storm, as a hedge in case the scenario is wrong, even though you'd get a slightly better play in the initial stages of a utility rally with higher-yielding, lower-quality issues." By quality, he means companies like Florida Power & Light, Florida Power Corp., Northern States Power, Potomac Electric, Southern California Edison, Texas Utilities, Utah Power & Light and Wisconsin Electric Power, among others. That's a lot of companies, but then there are a lot of utilities.

And Attalienti, *mirabile dictu*, isn't alone. Almost as bullish, though a little chastened, is Daniele Seitz of Smith Barney. "We would have preferred the interest rate decline not to have been interrupted," she says, "but our fundamental outlook hasn't changed." She also agrees with Attalienti on the prospect of robust dividend growth on stronger fundamentals, which she feels will prolong a

Utility stocks: a consumer's guide

Who's growing, who's shrinking

Time was when high-growth companies were Wall Street favorites—but not so today. Booming kilowatt-hour demand means lots of expensive construction and the need for frequent rate hikes. So many analysts favor slow-growth utilities with healthy reserve capacity already in place.

Company	Total kwh sales change 1979-80	Reserve margin 1980[1]	Construction 1980-82 as % of total capitalization[2]	Recent price	Indicated yield
Increases					
Central & South West	9.1%	24.3%	66%	13¾	11.5%
Public Service Co of NM	8.9	18.3	71	22⅛	12.1
Southwestern Public Service	8.5	24.5	45	11⅝	11.9
Texas Utilities	8.1	38.3	43	18⅝	10.1
The Southern Co	7.5	21.2	46	11½	14.1
Decreases					
Northern Ind Public Service	–7.6%	38.8%	69%	10⅞	13.8%
Detroit Edison	–7.2	27.3	55	11½	13.9
Cleveland Electric Illuminating	–4.6	39.2	40	14⅜	14.5
Toledo Edison	–4.2	34.4	40	16	14.3
Nevada Power	–3.2	18.5	81	18⅞	12.9

[1]Reserve margin shows the relationship between spare generating capacity and peak load demand.
[2]Data from Argus Research Corp.

Who's hurt least by inflation

Rising prices ravage capital-intensive utilities, as this analysis of current-cost earnings indicates. For only a few firms does the ratio of inflation-adjusted profits to reported income top 50%; the great bulk of utilities have little real earnings at all. And, at the bottom of the list, deficits are massive.

Company	1980 EPS reported EPS	1980 EPS current cost	Current-cost EPS as % of reported EPS	Price/current-cost EPS	Indicated yield
Best					
Iowa-Illinois Gas & Electric	$2.69	$2.18	81.0%	7.3	13.8%
Public Service Co of NM	3.36	2.25	67.0	9.8	12.1
Central Louisiana Energy	3.95	2.63	66.6	16.2	2.8
Toledo Edison	2.56	1.66	64.8	9.6	14.3
Long Island Lighting	2.53	1.40	55.3	10.2	13.1
Worst					
General Public Utilities	$0.34	d$ 2.37	NM	d	—
Kentucky Utilities	1.51	d 2.35	NM	d	14.0%
Florida Power & Light	3.94	d 3.35	NM	d	10.8
Central Maine Power	1.67	d 1.15	NM	d	14.5
Savannah Electric & Power	1.22	d 1.76	NM	d	12.3

NM: Not meaningful. d: deficit.

Who's paying tax-free dividends

Tax and income accounting differences made these companies' entire 1980 dividends a return of capital—and thus free from income tax. Still, the benefit stems from heavy construction spending, which may cause problems later. What's more, some payouts in 1981 could be taxable.

Company	S&P's stock ranking	Recent price	Indicated dividend	Indicated yield
Cleveland Electric Illuminating	A–	14⅜	$2.08	14.5%
Detroit Edison	B+	11½	1.60	13.9
Long Island Lighting	A–	14¼	1.86	13.1
NY State Electric & Gas	A–	14⅝	1.88	12.9
Ohio Edison	B+	12⅛	1.76	14.5
Pennsylvania Power & Light	A–	17⅛	$2.24	13.1%
Public Service of NH	A–	15	2.12	14.1
Rochester Gas & Electric	A–	12¾	1.52	11.9
Toledo Edison	A–	16	2.28	14.3
Virginia Electric & Power	A–	11½	1.40	12.2

Sources: Standard & Poor's; Merrill Lynch; Duff and Phelps, Inc.; FORBES

Statistical Spotlig

recent, anomalous development: erage utility stock yield is nov that of long-term government bo ditionally, the reverse was the ca

"The prospect of better earni dividends means that this rela will continue for at least a ye says. On whom to choose she pa pany, though. Seitz has an eye high yielders, which look very The spread between the highest est utility yields has widened strength of the higher-quality iss is currently over 3%, very high torical standards. "The spread is be corrected, once we get a sligh in interest rates," she says. An stocks to buy: Allegheny Powe more Gas & Electric, Commo Edison, Minnesota Power & Ligh delphia Electric and Toledo Strong companies, she thinks, a average of 13.5%, high yielders i

And likely to stay that way believe Mark Luftig of Salomo ers. "There are two kinds of pe there," he says of his com "those who think rates have pea those who see companies over th on construction, with improvin mentals. We don't see rates down, and we think talk of bette mentals is premature." All th manesque gloom is not to say th isn't money to be made in utiliti ever: By trading selected issue fied by Salomon's computer mo tig claims his institutional clie been posting gains of up to 20% Right now he likes Boston Edis tral Illinois Light, Indianapolis I Light, New England Gas & Northern Indiana Public Servic which are at least 5% cheaper computer says they should be.

Admittedly, that is not a gam paying retail commissions can p play. Thus, for the long-suffering ual investor Luftig has anoth companies paying return of cap dends, some of which, like those the table at the bottom of this taxable solely as capital gains. "S in the 50% tax bracket can get t tax equivalent of a bond yieldi plus," he says. "If you borrow th and deduct the interest, you have trage an individual can take a of." Risky? "Return of capital is weakness, sure, but there is no that most of these companies paying dividends." Particularly ing, he thinks, are Long Island Co., Middle South Utilities, N State Electric & Gas, Niagara M Pennsylvania Power & Light an ia Electric & Power Co.

Furthermore, if you've a mind

uftig suggests GPU, which has ed while the politicians try to do ng about Three Mile Island. "I : recommend it for a fiduciary," tig, "but I see a movement in ton and at other utilities to help mehow. There's a vague glimght at the end of the tunnel, and luck it won't turn out to be a ith a flashlight."

lerably less sanguine is S. Arlene f First Boston. She worries that ld get squeezed this summer, if ing coal strike limits its ability ower from other utilities and is of the prospects for any early She's unenthusiastic, as well, urn of capital dividends, citing and hassles for many investors g tax returns open for the three sually takes the IRS to audit the ying them. "And you have to be ble on your feet," she says, "be- unexpectedly good year can return of capital dividend fully ery quickly."

Barnes is even gloomier on the prospects of the industry as a whole, which, she notes, ended the first quarter with very high levels of short-term debt. And with many utilities already seriously overburdened with long-term debt—some with frighteningly low interest expense coverage—the urge to refund that short debt with equity could prove irresistible on any stock price improvement. "The pressure of new common issues," she says, "could stymie any effort at a sustained rally, if in fact, which we do not expect, there is a decline in interest rates."

She worries, too, that AA utility bonds currently yield more than utility stocks, a situation likely to be corrected on any improvement in rates. "That means you are likely to get better performance with bonds," says Barnes. She does, however, think that a few utility issues are currently underpriced: Cincinnati Gas & Electric, Pennsylvania Power & Light, South Carolina Electric & Gas, and a couple of others she can't talk about because First Boston will shortly be underwriting securities for them. Consider: If a grimster such as Barnes likes them, they might well be real stars.

There are other stars, too, according to Leonard Hyman of Merrill Lynch. To wit: Central Illinois Light, Central Illinois Public Service, Delmarva Power & Light and Madison Gas & Electric, all much stronger, he thinks, than their high yields imply.

"The market," says Hyman, "is not distinguishing between companies with high yields and decent prospects and companies with just high yields." With the exception of stocks like these whose yields are out of line with their prospects, he doesn't see much to recommend utility stocks at the moment. "If rates go down, you'll probably do better with bonds," says Hyman, sounding older and wiser. "Frankly, I'm not sure what to think about interest rates anymore, and I'm not sure I believe what anyone else says." Now there is a man you can identify with.

Shocking diversity

it's true that one horse does not a horse race make, t opinion among Wall Street utility analysts resemothing so much as this year's Kentucky Derby: a lot of s and not much consensus—on interest rates, the best-priced stocks, even perhaps the time of day. Herewith a list of utilities in favor now. It includes quick-starters, some come-from-behinds and a long shot or two. As the bookies say, you pays your money and you takes your choice.

ny	Recent price	Earnings per share 1980	Current-cost EPS as % of reported EPS	Total kwh sales change 1976-80	Change in dividends 1976-80[1]	Indicated yield	Payout ratio	Book value per share	Pretax fixed charge coverage[2]	Regulatory environment[3]
eny Power	14⅜	$2.59	NM	19.6%	11%	13.6%	75.7%	$21.07	2.7	C–
ore Gas & Electric	22⅛	3.64	0.8%	16.7	20	11.6	70.3	30.79	3.3	C
Edison	20¼	3.75	NM	9.3	11	13.8	74.7	31.01	2.3	NA
l & South West	13¾	2.45	8.2	30.8	25	11.5	64.5	17.04	3.5	B–
l Illinois Light	13¼	2.00	NM	17.5	6	13.7	91.0	18.26	3.3	C
l Illinois Public Service	10⅝	1.54	NM	12.9	10	13.6	93.5	13.80	3.1	C
nati Gas & Electric	15	2.25	5.3	16.8	23	13.6	90.7	19.94	2.5	C+
onwealth Edison	18⅝	2.97	45.8	6.7	9	14.0	87.5	26.72	1.9	C
idated Edison	28⅛	4.67	NM	12.0	68	10.5	63.4	45.23	3.7	C
rva Power & Light	11⅜	1.60	NM	12.0	23	13.4	95.0	15.74	1.9	C+
Power	14¼	1.66	NM	26.9	46	11.5	98.8	18.07	2.7	B+
Power & Light	28¼	3.94	NM	28.0	69	10.8	77.2	34.95	2.7	B+
on Industries	27½	4.71	40.3	34.0	66	10.8	62.8	35.14	3.5	A
apolis Power & Light	19⅛	3.68	29.3	11.4	21	12.5	65.2	24.83	3.8	A
on Gas & Electric	12⅞	2.21	5.0	36.7	35	13.4	77.8	19.56	4.1	B
sota Power & Light	16½	2.55	13.7	53.6	23	12.8	83.1	27.95	2.9	C+
ngland Electric System	21¼	3.50	NM	2.9	28	11.8	71.4	27.10	3.2	C+
ngland Gas & Electric	14¼	3.01	NM	–9.8	27	13.2	62.5	20.65	3.3	C
rn Ind Public Service	10⅞	1.47	NM	2.9	7	13.8	102.0	17.11	2.5	A
rn States Power	22⅞	3.23	NM	14.1	21	10.6	74.9	28.17	3.8	C+
lvania Power & Light	17⅛	2.64	23.1	10.5	17	13.1	84.8	24.54	2.1	C–
elphia Electric	12½	2.00	1.0	5.1	10	14.4	90.0	18.64	2.1	C–
ac Electric Power	13⅝	2.10	9.5	15.5	26	11.7	76.2	17.00	3.4	C–
Carolina Electric & Gas	13½	2.02	nil	14.5	15	13.5	90.1	18.29	2.2	C+
rn California Edison	25⅝	3.50	NM	11.6	65	11.6	84.6	32.90	2.0	C+
rn Indiana G&E	17⅝	3.43	NM	26.9	38	10.7	54.8	23.37	5.6	A
Energy[4]	19⅛	3.12	11.2	20.2	39	9.0	55.1	19.61	4.1	B+
Utilities	18⅝	3.18	34.6	32.0	33	10.1	59.1	21.60	3.3	NA
ower & Light	16⅜	2.35	45.5	24.7	45	12.2	85.1	18.48	3.1	B+
sin Electric Power	23⅛	3.53	NM	9.7	26	11.6	75.9	32.53	2.9	B

TE Desmond Co. [2]Principal source: Argus Research Corp. [3]Source: Salomon Brothers. [4]Parent of Tampa Electric. NA: Not available. NM: Not meaningful. gible.

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Forbes: Capitalist Tool®

more things change. . . ."
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ears ago in FORBES

people must either play ball or e field. The patience of the public is rapidly reaching the oint. What license have coal to adhere stubbornly to war- s for household coal when ev- ndustry in the land has had to its perch? Steel prices have so have prices for copper, leath- wool, wheat, rubber, clothing, es, rugs, lumber—everything. ican public have long harbored and a hatred of 'coal barons.' the last few years have not his distrust and this hatred."

industry, after its long orgy of , is now flat on its back. Busi- ieter than it has been at any irteen years. It is not logical to ny immediate rebound. Con- el that prices may go lower. Steel Corporation decries such s certain independents are al- nning to shade terms in order rders, the colossus may by and self compelled to follow suit. Judge Gary's influence over the stry of the whole country is rallel in industrial history, ne- ay cause competitors to start urious warfare."

sui Bank is today the largest t private bank in Japan, the nily owning all but 20% of its ck. It has issued capital stock g to $30,000,000. The profit for alf of the year 1920 amounted 720. The total assets of the ully $295,039,572. Thus, from beginning of three hundred the operations of the Mitsuis nded, until today the retail s descendants have become in the financial world."

rld keeps turning. The Mitsui Bank, now publicly rather than privately owned, is today the seventh-largest Japanese bank. Late last year it mustered total assets of over $52 billion and was, needless to say, growing fast.

Fifty years ago

"**Action of the New York** [Federal Reserve] Bank in cutting its rediscount rate to 1½% started another epidemic of rate cutting in the various districts. Boston, Kansas City, Philadelphia, Dallas and Richmond reduced their rates from 3½% to 3% and Chicago, Cleveland and St. Louis reduced from 3% to 2½%. None of them, however, has equaled the record low of 1½% set by the Federal Reserve Bank of New York, and it may incidentally be noted that the new low rate in that center is the lowest ever seen in any nation of the civilized world in the history of modern banking."

"**Railroads in trunk line territory** have decided to cut passenger fares still further during July and August on all trains from the Atlantic seaboard to cities on the Pacific coast. Round-trip fares will be somewhere around $130. The reduction is temporary and merely in the form of an experiment to see if traffic is sufficiently stimulated to make further reduction advisable."

"**Reports now indicate** that 1930 wheat production in Russia was just under 1,100,000,000 bushels, or nearly 250,000,000 bushels more than were produced by the United States in that year. Such figures would show Russia to have exceeded any previous crop of wheat since 1913, when she was reported to have grown a little over 1,000,000,000 bushels. If such figures are corroborated, it will mean that Russia has taken back her crown for world wheat leadership which she relinquished to the United States during the War and thereafter."

As suggested by the contrast between this item and the accompanying cartoon, which appeared in the same issue of FORBES, sensible publications of that day were of two minds about Soviet Russia: They were morally repelled, but nonetheless reported its apparent achievements with a skeptically realistic eye.

's Tokyo headquarters in the early 1920s
rn-oriented Japan, it resembled a French government palace.

Edited By Dero A. Saunders

An Old Struggle Going On

A 1920s cartoon jibe at Soviet atheism

"**The year's outstanding** mechanical development has of course been free wheeling, which is now being experienced by enough motorists so that they know what it is, even if they cannot tell how it works. With [Studebaker's] Mr. Erskine as a prophet again, this type of transmission will be universal at the time of the 1932 New York Show."

The automotive craze of its day, free wheeling enabled a car to coast if the engine slowed down—like the old bicycle coaster brake. It gave the driver a feeling of exhilaration, until he found it was safer to leave the driving wheels connected to the engine when slowing down. So the device died as quickly as it came. But long after it has been forgotten, the phrase lives on in the language.

Twenty-five years ago

" '**It's just like fishing** in a trout pond when all the legal-sized trout have been caught. You've got to wait until the minnows grow up.' That's the way the National Automobile Dealers Association's President Carl E. Fribley describes the auto salesman's biggest current headache: the highly elusive customer. Says Fribley: 'We simply sold too many cars for our own good in 1955. We sold to too many customers who normally would have bought cars in 1956.' "

Thoughts on the Business of Life

Action is the last resource of those who know not how to dream.
OSCAR WILDE

What a man is is the basis of what he dreams and thinks, accepts and rejects, feels and perceives.
JOHN MASON BROWN

Difficulties exist to be surmounted.
RALPH WALDO EMERSON

Happiness is the overcoming of not unknown obstacles toward a known goal.
L. RON HUBBARD

Abasement, degradation is simply the manner of life of the man who has refused to be what it is his duty to be.
JOSÉ ORTEGA Y GASSET

A Text . . .

The backslider in heart shall be filled with his own ways: and a good man shall be satisfied from himself.
PROVERBS 14:14

Sent in by Regis R. Pfoff, W. Mifflin, Pa. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Few women and fewer men have enough character to be idle.
EDWARD V. LUCAS

I have always thought it would be easier to redeem a man steeped in vice and crime than a greedy, narrow-minded, pitiless merchant.
ALBERT CAMUS

Fame and rest are utter opposites.
RICHARD STEELE

There is more genuine joy in climbing the hill of success, even though sweat may be spent and toes may be stubbed, than in aimlessly sliding down the path to failure. If a straight, honorable path has been chosen, the gaining of the summit yields lasting satisfaction. The morass of failure, if reached through laziness, indifference or other avoidable fault, yields nothing but ignominy and sorrow for self and family and friends.
B.C. FORBES

Money is the symbol of duty. It is the sacrament of having done for mankind that which mankind wanted.
SAMUEL BUTLER

A man's greatest enemies are his own apathy and stubbornness.
FRANK TYGER

My life has no purpose, no direction, no aim, no meaning, and yet I'm happy. I can't figure it out. What am I doing right?
CHARLES M. SCHULZ

Fortune is ever seen accompanying industry.
OLIVER GOLDSMITH

Some people with great virtues are disagreeable, while others with great vices are delightful.
LA ROCHEFOUCAULD

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Loafing needs no explanation and is its own excuse.
CHRISTOPHER MORLEY

It is easier to enrich ourselves with a thousand virtues, than to correct ourselves of a single fault.
JEAN DE LA BRUYÈRE

I would not exchange my leisure hours for all the wealth in the world.
COMTE DE MIRABEAU

This is my work; my blessing, not my doom.
HENRY VAN DYKE

Success is simple. Do what's right, the right way, at the right time.
ARNOLD GLASOW

What I aspired to be and was not comforts me.
ROBERT BROWNING

One should . . . be able to see th as hopeless and yet be determi to make them otherwise.
F. SCOTT FITZGERALD

The less of routine, the more of life.
AMOS BRONSON ALCOTT

Don't be discouraged by a failure. It can be a positive experience. Failure is, in a sense, the highway to success, inasmuch as every discovery of what is false leads us to seek earnestly after what is true, and every fresh experience points out some form of error which we shall afterwards carefully avoid.
JOHN KEATS

To fail at all is to fail utterly.
JAMES RUSSELL LOWELL

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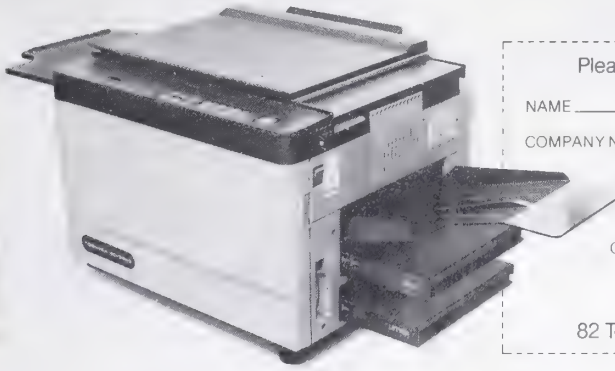
Here is a complete list of all dry plain paper copiers under $3500 with dual paper cassettes, microprocessor control, and automatic toner replenishment.

1. Toshiba BD-3503



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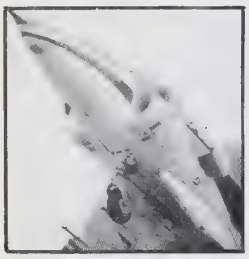
June 8, 1981
Volume 127,
Number 12

107 Cover Story: The perks that irritate the public may be fading, but the ones that really matter are on the upswing.



38 There are more than facts and figures to a decision on military weaponry—always.

44 Woolworth: "Everything fell into place last year. But nobody noticed."

31 Defense:
The MX Missile
The MX isn't dead, but that scheme to dig 4,600 holes in Utah and Nevada to house 200 rockets is sinking slowly into the sunset.

32 Monetary Policy:
Lewis Lehrman And The Gold Standard
Why the savvy former president of Rite Aid Corp. is asking the politicians to make the supreme sacrifice.

34 France:
The Word Is *Débrouillardise*
Roughly translated, it means "street smarts," and it has more to do with the collapse of the franc than the non-Gallic world might suppose.

35 Companies:
Allied Corp.
"Maybe I'm not moving fast enough," says Ed Hennessy. He must be kidding.

36 Oil And Gas:
The Invisible Billionaire
Never heard of Denver's Philip Anschutz? That's just the way he wants it.

38 Defense:
The Flight Of The Harrier
Why the Marines want that expensive plane.

44 Companies:
Woolworth
At a wretched 5 times earnings, there's some surprising earnings leverage in the old five-and-dime.

48 Banking:
Laissez-Faire Marches On
Congressmen propose, technology and human ingenuity dispose.

50 Companies:
Four-Phase Systems Inc.
Lee Boysel thought IBM had "blessed our business" two years ago by getting in it, and thus—so Boysel thought—expanding the market. Alas, it didn't work out that way for either company.

54 Investing:
Commodity Options
A new way to lose your shirt?

71 Companies:
Metromedia
Why canny John Kluge isn't rushing into cable TV like everybody else.

72 Companies:
Honeywell Inc.
Who's afraid of the Japanese?

76 Companies:
International Controls Corp.
Robert Vesco nearly ruined it, and it has taken Elmer Sticco eight years to straighten it out. The job, he says, may be about complete.

83 As I See It:
Stanley Sporkin
The SEC's former chief enforcer sits down with FORBES to get a few things off his mind.

88 Companies:
G. Heileman Brewing Co.
Because Russ Cleary likes to watch eagles—in more ways than one—his company could wind up as the nation's third-largest brewer by year's end.

92 The Money Men:
Stanford Rothschild Jr.
What sets apart the Rothschilds of Baltimore: A commitment to convertibles.

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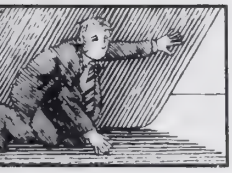

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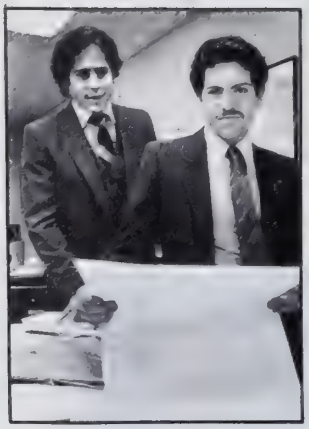
Kichen and Bornstein

The Statistical Spotlight is one of FORBES' most popular features, eagerly pored over by corporate acquisitionists and investors alike. It's a mixture of statistics and journalism. That may sound like a contradiction in terms, but it works for our readers and we've put together an unusual team to produce it. Assistant Editor Steve Kichen, 32, is a graduate of the State University of New York at Albany, where he majored in biology. *Biology?* Why not. Says Steve: "Lots of parallels there to business. In biology you learn about survival of the fittest and limits to growth." At home in Westchester County Steve can be found many evenings screening stocks on his microcomputer; that's when he's not attending Long Island University classes at Mercy College for his M.B.A. At FORBES he is aided by Paul Bornstein, 25, a graduate of Clark University, who has been interested in the stock market since he was a teenager and who often ponders investment data on a 5-mile lunch-hour jog from the FORBES office to the World Trade Center and back.

Steve and Paul are not simply computer programmers. Statistical journalism isn't work you can program a computer to do. First you need an idea. In this issue, Kichen and Bornstein decided to see whether companies that recently cut their dividends were subsequently good or bad performers; the answer is on page 189. Only after the idea has been developed and the companies discovered does the computer take over. This is creative work and it takes creative people to do it.

Nervous Paul, confident Ben

In his column on page 175, our resident money market expert, Ben Weberman, again predicts a big decline in the inflation numbers and a huge profit opportunity in bonds. In What's Ahead for Business, however, we report that the Fed isn't certain which will come first: a slower economy or a financial crunch. How come Ben Weberman's so certain when Paul Volcker's so uncertain? Says Ben: "Whether we glide into a slowdown or crash into one, inflation-fighting is the priority. That means bonds are a bargain whether Paul Volcker comes out covered with roses or smeared with mud."

A friendly respite

Japanese Prime Minister Zenko Suzuki took a couple of hours out on May 5 to relax during a luncheon cruise on the FORBES yacht, The Highlander, during his recent hectic visit to the U.S. An excellent opportunity for FORBES to get to know the Japanese leader and his associates. Left to right, Mr. and Mrs. Malcolm S. Forbes, Prime Minister Suzuki, FORBES publisher James J. Dunn, Mrs. Sachi Suzuki, U.S. State Department Chief of Protocol Leonore Annenberg.

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Trends

Edited By John A. Conway

Scenic diplomacy

The White House plans a change of scenery for the next round of grain talks with the Soviet Union. Under the five-year pact that expires in September, the twice-a-year talks alternated between Moscow and Washington. This time, according to insiders in the Agriculture Department, the scene will be in a third country, probably in Western Europe. The switch would avoid any thought that either side was giving way by letting the other have the home-court advantage.

Age and taxes

Economists at the Brookings Institution, of all places, are arguing that Social Security benefits should be taxed. Joseph Pechman, director of economic studies at this highly regarded and generally Democratic-oriented think tank, says that because employer payments to Social Security are tax-exempt, benefits financed by that money could be taxed. Barry Bosworth, another Brookings economist who was a chief in Jimmy Carter's anti-inflation efforts, says taxing old-age benefits would mean little to low-income retirees because their income is usually below the tax cutoff. He also argues that slashing early-retirement pay from 80% to 55% of the age-65 level would hit hardest at blue-collar workers, who tend to retire earlier than their white-collar brethren. Meanwhile, champions of the senior citizens are gathering their forces. A new study for the American Association of Retired Persons and the National Retired Teachers Association, two of the most potent gray-eagle stalwarts, attacks the idea that the elderly are overcompensated by the automatic cost-of-living increases. Economic consultant Thomas Borzilleri, who did the study, argues that oldsters should have their own consumer price index to reflect their higher outlays for food, fuel and medical costs. And Cyril Brickfield, executive director of the two big retiree groups, makes the dire prediction that if the average Social Security benefit is cut by $25 a week, or $1,300 a year, "the poverty rate among the elderly will more than double."

Warsaw's groceries

Americans are giving the embattled Poles more than sympathy. Warsaw has run up about a $1.7 billion grocery tab in U.S.-backed credit guarantees and direct credits for American foodstuffs, the Agriculture Department says, channeled through the Commodity Credit Corp., the Export-Import Bank and the Agency for International Development. The latest deal calls for $71.4 million for 30,000 metric tons of dry milk and butter, the milk at $350 a ton under the world price, the butter at a $700-a-ton discount. And payment will be in Polish zlotys.

Flight canceled

Airlines can expect more rough economic weather before they fully adjust to the price-cutting and competition on prime routes that followed deregulation of the industry, says Frank Borman, chairman and president of Eastern Air Lines. He expects a number of lines, including some of the major trunks (but not Eastern) to go bankrupt. Nonetheless, the ex-astronaut says he is now very much for deregulation and he is not shaken by the crash landings he foresees in the bankruptcy court. "If they fail, they fail," he says. "Somebody once said that capitalism without bankruptcy is like Christianity without hell."

The vanishing American

The corner gas station, for years an endangered species, now seems headed for oblivion. In the past two years, 34,000 have hung up their hoses and Joseph Grish, president of the Service Station Dealers of America, expects another 32,400 to fold this year. Energy Department figures show 130,000 independents operating now, down from a peak of 230,000 in 1972. The major threat, Grish says, is still the stations owned by the big refiners, which he says are primarily gas-and-go or self-service outlets, geared for high gasoline volume and minimal attention to repairs and other chores. Grish and his members are pinning their hopes on the chance that Congress might act to force the big oil companies to give up their stations. Meanwhile, a new threat has appeared—gas pumps operated as a sideline by convenience stores. These, the independents charge, can operate on margins of 1 or 2 cents a gallon, something they cannot match.

Lo! The poor lawyer

The 34,000 fledgling lawyers graduating this year may have a harder time finding berths because of cutbacks by federal, state and local agencies. The percentage of new lawyers finding jobs in government, according to Michael Magness, head of the National Association for Law Placement, fell from 17.6% in 1975 to 14.7% in 1979, and he expects worse results for 1980 and 1981. Magness, who handles law placement for New York University, thinks it could take until next March or April to find desks for the 1981 graduating class. As usual, the best jobs are in New York, Washington, Los Angeles and other big cities. New York firms are waving $40,000-a-year checks at top graduates and summer interns are getting $750 to $800 a week. Most young lawyers, however, never get near a big law firm, Magness notes. Instead, they may settle for $8,000 to $9,000 a year

"But the President has been real nice about it. He cut their Social Security benefits, but he's encouraging them to work past 65 . . . G'night Gran'ma."

with a public interest group or $10,000 to $11,000 with small private law firms in the rural South and Southwest. New York stays tops, he says, for two perhaps self-canceling reasons: the city's pride in staying number one in law—and number one in living costs.

On the line in Japan

Western engineers are too reluctant to dirty their white coveralls near a production line, says Akio Morita, the chief executive of Japan's Sony Corp. Back home, he says, many Japanese graduate engineers work as line foremen. One reason for having such high-priced talent in production, he explains, is that reliability of exported items must be high because the costs of returning them for repairs would be prohibitive. Japanese managers and workers, Morita says (putting a new slant on two old metaphors), are like a ship's crew: "Our employees understand that we're all sharing the same plate."

Oracle for inventors

Building the better mousetrap? Two scientists at Brigham Young University claim they have a patentable idea that eliminates 99% of the guesswork about what a new product will look like and whether it will work. Dr. Dell Allen and Ron Millett of BYU say 11 corporations, ranging from Boeing and Goodyear to Caterpillar and Westinghouse, are already using their system. Dr. Allen explains the genesis of the process, called "DCLASS" (for Decision Classification Information System) this way: During his 20 years of teaching process planning, he says, every time he asked students to solve a hypothetical problem, he got a roomful of answers. "So we set about to capture the logic of planning," he says. "If we could get the best planner and store in the computer his manner of thinking, then we could let everyone use it." This, he says, is what he and his colleagues have done. "Companies like Boeing [the first to use DCLASS]," he explains, "classify their equipment parts into families as they design new parts, so they can quickly see if they already have the item." By running a new design through Dr. Allen's machine, a company can determine whether it has the equivalent already sitting on its shelves. While waiting for the patent, BYU has been commissioned by eight corporations to work up videodisc programs for employee training.

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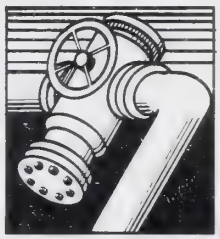

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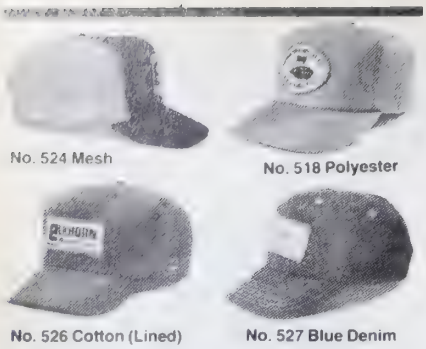

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Follow-Through

Showdown poker

Air Florida once thought it had sewn up Air California, FORBES reported a month ago *(Apr. 27)*, adding "but it hadn't reckoned on dealing with Herbert Kunzel." Kunzel, a 72-year-old retired International Harvester executive, was trustee for the bankrupt Westgate-California Corp.; the airline was the last worthwhile asset salvaged from the 1973 collapse of the banking empire of C. Arnholt Smith, who is now appealing a conviction for grand theft. Air Florida's offer, $45 million for all of Westgate, was too low in Kunzel's view, and he bent all his energy and crusader's zeal to sweetening it. The Florida-based line, one of the most expansionary in the industry, had already made a deal with the Federal Deposit Insurance Corp., Westgate's biggest creditor, for 85% of the defunct company's preferred stock and 26% of the common, a deal Kunzel condemned as a back-door ploy.

The resolution came in a bidding contest in a San Diego courtroom that would have quickened the pulse of a Las Vegas poker dealer. Air Florida came in leading from strength. Against them were two Orange County real estate developers, William Lyon, a former Air Force general, and George Argyros, principal owner of the Seattle Mariners baseball club. The bluffing went on in $500,000 raises until Air Florida threw in a $58 million offer. The real estate men paused and Federal Judge Leland Nielsen declared an overnight recess. The next day the Orange County contingent dropped a $61.5 million stake on the table and the judge declared the bidding over. "Everybody has to decide what something is worth to them," said Air Florida's chairman, C. Edward Acker. With an estimated $11 million to $12 million profit on his holdings, Acker was hardly unhappy. "That beats running an airline," he said.

Everybody won, it seems. For Herbert Kunzel, it was a day of triumph. Hailing "a tremendous result," he said the settlement "will mean that the bona fide creditors will receive at least 100% of their credits."

Westgate trustee Herbert Kunzel
Hang tough and the creditors win.

Battle of the bureaus

When President Reagan handed the ax to his budget director, David Stockman, one prime target for the Administration's planned cost-cutting program was the Washington bureaucracy. But, FORBES pointed out *(Mar. 30)*, the agencies involved would be "taking to the hills to fight for their programs." One of the first to head for the tall timber was the National Consumer Coop Bank, a Ralph Nader-inspired agency set up in 1978 to lend money to small cooperatives. When Stockman took over he ordered the bank to fold. A quick SOS from the bank to Capitol Hill mustered 26 signatures of protest on a letter to the White House—after all, congressional prestige was at stake—and Stockman conceded that he could not impound the bank's funds without congressional approval. Round one for the bank.

The bank's president, Carol Greenwald, then made a more dramatic move. She wrote a check for almost $60 million, which Treasury officials cashed as a matter of routine, and then she squirreled away the money in private banks where the Treasury presumably could not touch it. Another round for the National Consumer Coop Bank.

The Treasury belatedly challenged the deal, charging that Mrs. Greenwald had acted "improperly." She, in turn, said she was retaining a lawyer, claiming the bank had an opinion from the General Accounting Office, Congress' own watchdog, backing her action. Congress, after its original protest, ignored a proposal to authorize budget cuts for the bank. Mrs. Greenwald had said she would match that by handing back the $60 million. Meanwhile the bank's 15-member board (which now has 7 new Reagan appointees) voted to return the money

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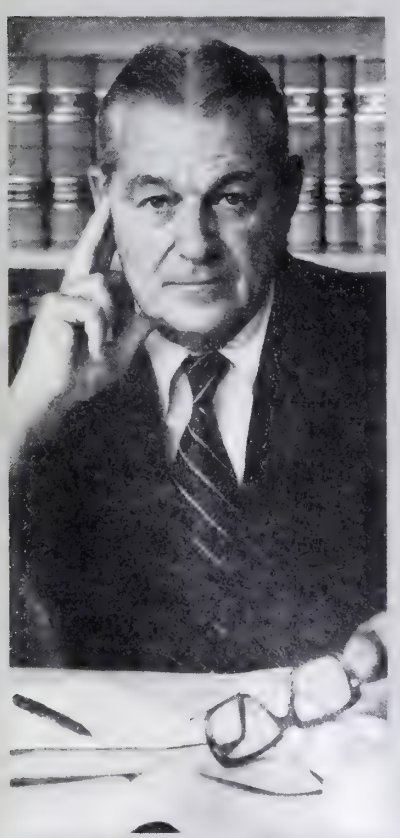

Robert C. Watts, Jr. State Treasurer

Don't Expect A State That Can't Balance Its Own Budget To Be Good For Business.

Many of the states making a hue and cry for new business would do well to pay more attention to their own.

Certainly, our experience here in Virginia over the past 200 years would suggest that a balanced state budget creates the best climate for business.

It encourages lower corporate taxes, so that industry does not have to pay for the financial sins of government.

And second, businessmen know that they can expect support from a government that plays by the same rules and faces the same bottom line.

If you want the best location for your company, look at the business climate in Virginia. And remember that probably no other state has balanced its budget for as long as we have. Just contact the Division of Industrial Development, Dept. F6, Richmond, Va. 23219.

Virginia

and the Treasury agreed to release $33 million to meet the bank's current-quarter expenses. The purpose of all this, says the bank's executive vice president, Mitch Rofsky, was "to wipe the slate clean."

What's next? The bank may think the slate is now clean, but the Office of Management & Budget says that the National Consumer Coop Bank is still high on David Stockman's slate of nominations for oblivion.

Stay tuned.

Dog and pony: Act II

Ronald West used to call his pitch to promote tax shelters a "dog and pony show," FORBES reported last year *(Mar. 17, 1980)*. It must have been quite a performance, because in less than four years West and his partner, G. Charles Cole of Dallas, had raised $65 million from almost 4,000 investors in various real estate ventures, mainly in the Sunbelt. The tax writeoffs they offered—at least $2.25 for every $1 invested—seemed too good to be true, FORBES commented, adding that "in many cases, they are too good to be true." Others harbored similar reservations. West and Cole were under investigation by the Securities & Exchange Commission, and some of their customers found that the Internal Revenue Service was giving their returns special scrutiny.

After interviewing dozens of persons familiar with the West-Cole operations, and reviewing partnership and land records in Texas and scores of offering memorandums, FORBES found samples of what it considered questionable accounting, improper filings and failures to disclose "important information in a timely manner." Nonetheless, Ronald West spoke pridefully of his empire, saying that he and his partner "don't have one unhappy investor."

The subpoenas, however, have come home to roost. In mid-April, West, Cole and eight of their various corporations "consented" in a federal court in Dallas to a permanent injunction barring them from buying or selling securities fraudulently or without proper SEC registration. In the nature of consent decrees, the defendants neither admitted nor denied sinning and the SEC action ended there. Any further moves are up to other government agencies or to West-Cole partners who may have been singed in their operations.

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E.F. Hutton Master List's unique stock evaluation method establishes relative values for over 900 stocks, instantly reveals undervalued situations, and pinpoints up-to-date prospects.

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When EFHutton talks, people listen.

Jeers for Jerry

SIR: If you really think Jerry Brown has changed ("Jerry Brown Comes In From Way Out," *Fact and Comment, May 11*), you're dumber than I thought.
—Roger Bartholomey
Monterey, Calif.

SIR: Jerry Brown is the antithesis of all you stand for. Jerry blocks offshore oil development (okay for Texas and Louisiana, but not for California). He suffocated Dow Chemical's proposed $500 million plant with kindness. ("Why did they give up? They had only 50 more permits to go.") He sabotaged Sohio's plan to use an idle gas pipeline to ship Alaska oil from California to the Midwest. Jerry is lavish in his praise of the State Energy Commission, which works overtime to delay every energy project that comes before it. He's not fit to run a state or help run a country.
—Robert H. Paschall
Sacramento, Calif.

SIR: Can a leopard change his spots?
—Don Jackson
Lindsay, Calif.

SIR: Jerry Brown loves business as much as he loves Linda.
—Richard Medard
Sierra Madre, Calif.

Stripping and profitability

SIR: We think the footnote on the article "We really rolled the dice" *(Apr. 27)* should have read "marginally profitable" rather than "marginally productive" in reference to stripper-well fields in the U.S. Stripper wells produce over 1 million barrels of crude oil per day. Because of the imposition of the excise tax (the so-called windfall profits tax) on crude-oil producers, stripper-well operators have suffered a price rollback for their product while costs of operations continue to inflate.
—R.L. Vockel
President,
National Stripper Well Association
Tulsa, Okla.

Another view

SIR: Re the Hungarian exception *(May 11)*. The limits of Hungarian political and social developments are exactly the similar limits of the other state socialist systems—more specifically where the rights to freedom begin. Neither today nor in the future can the current Hungarian regime trespass these limits.

Your writer did not speak with representatives of the Foundation to Help the Poor, with the young writers whose organization was banned by the government a few weeks ago, with the educators who lament about the nihilism of Hungarian youth, with the "differently thinking" young Hungarians who do not want to give up hope for democracy for the cheap promises of a larger piece of meat.
—Istvan B. Gereben
Executive Secretary,
Coordinating Committee of Hungarian Organizations in North America
Rockville, Md.

Cryptic remark

SIR: Re the Crypt advertiser *(Fact and Comment, May 11)*. Perhaps the denouement should have read: "Succumb To See Us."
—Cal McNeely
Ladonia, Tex.

Our defense

SIR: Your comments concerning the MX system *(Fact and Comment, Apr. 13)* are being made available to the special committee considering this system.
—Charles H. Townes
Department of Physics,
University of California
Berkeley, Calif.

SIR: You have made some valid and important points about our national security requirements and priorities. I see we agree on several essential questions.

By identifying some of the fundamental issues, you have contributed significantly to the public debate we need if we are to achieve a bipartisan national consensus on defense and foreign policy.
—Senator Sam Nunn (D–Ga.)
Committee on Armed Services
Washington, D.C.

Not our whole business

SIR: In "Derricks, derricks everywhere" *(Apr. 27)* an unnamed analyst suggests the sale of companies' shares whose *entire* business was dependent upon land-based contract drilling. Mention was made of our company. As of our fiscal year-end, Jan. 31, 1981, the contribution to revenues from contract drilling was [only] 56% of total revenues.
—Warren H. Haber
Chairman of the Board,
Kenai Corp.
New York, N.Y.

Read-ucing inflation

SIR: If reading will reduce spending and thus lessen the impact of inflation *(Fact and Comment, Apr. 27)*, I recommend that government bureaucrats be furnished with a good supply of books.
—J.S. Vanderploeg
Toronto, Ont.

Wrong to look?

SIR: Re your proposed feature "Executive Search" *(Fact and Comment, Apr. 13)*, one assumes that the CEO who said "This might tend to draw responses from people who are looking for jobs . . ." prefers to buy from salespeople who aren't trying to sell and instructs his sales force to avoid prospects who want to buy.

I'm looking for a job. I won't wait for people to search me out. I concentrate on prospects that don't consider looking for work stigmatic.
—Rudolph N. Carlson Jr.
Grand Rapids, Mich.

SIR: No wonder American Motors for 1980 had a $6 per share loss when the Board Chairman has such a negative view ("Your idea is hare-brained and useless").
—Richard Caldwell
Springfield, Ore.

Note the spinoff

SIR: The IBES earnings estimate figure for Peabody International which appeared in Statistical Spotlight *(May 11, p. 336)* included an earnings estimate for GEO International, a company which has been spun off from Peabody International.

Without GEO the 1981 IBES earnings estimate for Peabody is 58 cents.
—Steve Endicott
New York, N.Y.

Photograph—Neuschwanstein Castle, Bavaria

Audi

To a world weary of redesigned and styled automobiles, the new Audi oupe is refreshment itself.

It is a fresh statement in advanced tomotive design. Ahead of convenonal grand touring cars.

The Coupe's classic low-front, highck wedge shape is an aerodynamic tour force.

It helps the Coupe do 0 to 50 in just 7.4 conds.

Heart of this performance is the 5-cylinder engine, refined 5-speed gearing and matchless front-wheel drive.

This efficient engineering is also responsible for the Coupe's high mileage statistics: EPA estimated 21 mpg, 36 estimated mpg highway.*

The Coupe is pure fun. Pure Audi. A genuine masterpiece of innovative, relevant engineering and design.

It is, indeed, the Coupe du jour.

For your nearest Porsche Audi dealer, please telephone toll-free (800) 447-4700. In Illinois, (800) 322-4400.

*Use "estimated mpg" for comparison. Mpg varies with speed, trip length, weather. Actual highway mpg will probably be less.

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NOTHING EVEN COMES CLOSE

Audi

The next revolution in the science of home entertainment is brought to you by the same company that brought you the last one.
1981 is the year of the RCA SelectaVision™ VideoDisc system—an innovation in electronic technology that promises to surpass the impact of an earlier RCA "first": the introduction of color television itself.
The RCA VideoDisc system has two simple components—a record-like disc and a player which reproduces sound and picture from the disc on any television set. But behind this simple, yet revolutionary, system lies a complex technology, the result of many years of RCA research in physics, chemistry, mechanics and electronics.
Created at the cost of millions of research dollars, the RCA system is a CED or Capacitance Electronic Disc system. It incorporates some of today's most sophisticated integrated circuits, including a microprocessor, and a CCD delay line filter. The disc itself is also a marvel of modern technology. Fifty of its signal tracks or grooves would fit on the edge of this page.
The RCA SelectaVision™ VideoDisc system is the product of RCA research—the kind of dedicated research that has been a tradition at RCA for over 60 years. Today, many years after Nipper started listening to "His Master's Voice," research and development are funded at the highest level in our company's history. Our commitment is, as it has always been, to the advancement of technology—to the creation of products that, like the VideoDisc, expand the human horizon.
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RCA
A tradition on the mov

"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

AS SOMEONE OBSERVED, THANKS TO HIS PROFESSION

it didn't take Ronald Reagan long to get his ax together.

LET'S GET RIGHT ON IT, MR. EDWARDS

By now Energy Secretary James B. Edwards should begin to have the Capitol drill in hand.

Before he accomplishes the Reagan aim of doing away with his chair, it's necessitous for Dr. Edwards to get our atomic energy program turned on again by doing three things—directly or by the "power of suggestion" to the presidentially appointed Nuclear Regulatory Commission:

- Decide which of several safe waste-storage methods will be used, and designate the sites for them. (Federal lands constitute 34% percent of the total U.S.A., and they're under the Administration's administration.)
- Issue and enforce safety education regulations, and oversee the requisite training by and for the relevant utilities' personnel; and with near-numbing regularity, see to it that the requisite procedures are observed.
- Standardize basic A-plant blueprints, and thus obviate years of delay for multiple, repetitive clearances.

It takes only will and wit to get the job done.

What a consequential contribution to the nation's weal Mr. Edwards can make. What a way to cap his career.

F-14 FIGHTER WING TRYING TO FLY WITH ONLY ONE

Without civilian technicians, one F-14 fighter wing commander says his unit would be reduced to half strength.

Methinks he's an optimist.

What do you suppose it's doing to the morale and the reenlistment rate of the uniformed Navy technicians working alongside 5-day, 9-to-5 civilians who haul in much more money, haul out when they feel like it and report to no one (except perhaps in some instances their wives)?

And when combat units are deployed, do you think these employed civilians are deployable?

What about mere trifles like security?

There is no answer for military capability in multiplying civilian employment for maintenance.

There are a few simple, inescapable answers to this otherwise inescapable and crippling military problem: a draft to provide enlistment impetus (of which probably only 1 out of 20 might be lotteried into service for a year); sizable pay jumps for minimal six-year enlistees with each improvement in technical ability; and reduction, to the feasible minimum, of the constant shuffling of officers and men from one unit to another. Pride in a unit takes time to develop.

I firmly believe that President Reagan has the guts as well as the sense to overcome his opposition to the draft when those responsible for the state of our military tell their Commander-in-Chief it's essential if we're to man our military.

GM'S GENERALISSIMO ROGER SMITH MADE A STARTLING COMMENT

almost as a mere footnote to his replies to *Face The Nation* TV questioners—"A lot of what we need can be gained if people just come to work every day as they're supposed to. Absenteeism cost GM more than a billion dollars last year."

Almost alone that fact's enough to knock galley-west proposals to knock way down imports from the Far East.

HOW COULD OUR FORMER AMBASSADOR TO JAPAN

wreak such havoc on a friendly Rising Sun government by his inexplicable, incredible statement about U.S. warships, atomic weapons and visits to Japanese ports? In a few words Edwin Reischauer managed to do 100% more damage to our relations with Japan than whatever good he may have accomplished in five years as our Ambassador there.

KISSING OFF THE CURTSY

Isn't it wonderful that all our other problems are so minor that some silly nitpickers could make (briefly) so much of the fact that our Chief of Protocol, Madam Ambassador Leonore Annenberg, made a slight, two-second kneedip to the British throne's heir when he stepped off his airplane in D.C. recently.

Syrian-Israeli tensions; bloody Northern Ireland riots; Reagan's sweeping federal budget proposals before the Congress; Japan versus Detroit on auto sales; interest rates soaring to 20% and the stock market dipping 5%; growing El Salvadoran complications; MX missile controversy; the possibilities of renewing SALT II discussions—all these were as nothing because our warm and gracious Protocol Lady extended a fleeting courtesy curtsy to Bonnie Prince Charlie.

You'd think our independence from Britain hung by such a slender thread that it might break under the pressure of a slightly bent knee.

The next day, the Prince of Wales, with his usual charm and wit, put the whole matter back in perspective as he departed for his Great Britain: He kissed Mrs. Annenberg—her husband had served for 5½ years as our ambassador to his mother's court—a fond good-bye . . . thus allowing all those other minor matters to come back into discussion.

PUTTING $BILLIONS INTO THE CABLES OF CABLE TV

as so many of our gigantic-er fourth-estate colleagues are doing doesn't seem to us necessarily assures them of monolithic, monopolistic profitability.

For sure, cable TV has an unlimited future—all 50 to 100 channels' worth in mounting millions of homes.

But putting all your bucks on one costly wire to each house? In less than 60 months, for $300 more or less, every house and apartment will be able to stick a dish-topped mast on the roof and, with it, tune in on any one of the countless programs being beamed to and from most anywhere.

What's going through the air will determine who gets a measurable audience and the advertising dollars. The good specialized programming will get one piece of the pie; the unusual and/or spectacular, the other.

Almost as quickly as they figure out how to scramble their programs, under- and over-the-counter unscramblers will be selling for less than a theater ticket.

Then there's that little outfit called AT&T, which, if it must spin off this or that segment, must certainly be freed to compete in every other business. Don't they already have a line into most every residence in the country? Is it an insurmountable problem for them to have a gizmo to feed your cable TV set?

Then there's the little matter of public opinion. On our cable TV in New York City, when we wanted to add the Showtime pay cable to the existing HBO capability, we were told we could have one but not both. You think that arbitrary decision will hold up as time and alternatives and technical advances continue moving as swiftly as they are now?

Software's where the long-run return on cable TV is more apt to be than in the upfront $billions now literally going into cables themselves *(for an insider's view, see p. 71)*.

I DON'T KNOW MANY AS INTELLIGENT

and I know few as able as Christie Hefner *(see Fact and Comment, Feb. 4, 1980)*. When she came to lunch the other day, it was to break heads as well as bread, to deflate a recent FORBES story on Playboy Enterprises as well as to inflate and go ballooning with the Forbeses.

Christie began her observations as beautifully as she always looks, praising the accuracy of the principal one of three points in FORBES' article, "Is Playboy's luck running out?" That point dealt with the grim prospect of lost licenses faced by their London casinos, which account for twice the profits produced by the magazine itself. But Christie maintained that the London outcome would not affect Playboy's New Jersey casino license. Before granting the usual temporary one, the New Jersey Commission insisted that the executives who had gotten Playboy in trouble in Merrie England have nothing to do with the Jersey casino.

"And, Malcolm," she continued, "to suggest that casino problems 'could spell the end of the bunny empire,' as FORBES did, is ridiculous when *Playboy* magazine itself cleared $16 million last year. We've got work to do to maintain past profitability but that's very different from going out of business. We're working at doing what must be done and it's absurd to suggest that the existence of the Playboy company itself is in question."

Anyone who knows Christie—increasingly a key decision maker in the company—had better believe it.

IN THE LAND OF THE MIDNIGHT SUN

Excerpted from Cycle World's *report, written by its editor, Allan Girdler.*

Shortly after 3 p.m. on what the French call *6 juin* [June 1980], we left Omaha Beach and pointed the motorcycles inland. It was the 36th anniversary of D Day and it was a good time to ride a Harley-Davidson across France. We were headed for the northernmost part of Europe, known as the North Cape—hundreds of miles north of the Arctic Circle.

The Cape is the farthest north, the closest to the North Pole that you can go on wheels, so Malcolm Forbes decided he'd like to ride there. He enlisted me, his son Bob, nephew Duncan and a friend of the younger Forbes, Dr. Jan Enezelius, a Norwegian physician who was saddled with the job of planning the routes and stops. I got to take notes; Bob and Duncan are professional photographers. Distinguished company.

We tend to think that only in America are motorcycles frowned on. Not so. Europe has been able to afford cars for a generation, so they reckon bikers are crazy, just like at home, and when we walked into the various four-star hotels and restaurants we got chilly stares.

We took a ferryboat from Germany to Norway and, to my way of thinking, we escaped from Europe. Norway is wonderful. First, the place is huge. Well, not so much big as long and thin, about 1,200 miles long and 280 miles wide.

The roads are good but not too good. No autobahns, no arrogant Mercedes drivers. You'll get a lovely smooth four lanes, then two, then oiled dirt with a construction detour or perhaps a tunnel with no lights and a dirt surface pocked by holes—terrifying. Not dull. Lots of curves. What you do in Norway is ride, rather than just sit there.

They have advisory speed limits and we saw a total of two patrol cars in a couple of thousand miles. If you drink and/or crash, they lock you in so deep Christmas carols arrive in June, but failing that, the police are not a revenue agency. In short, you can ride as fast as conditions permit, and that's fast.

The scenery is incredible. Like Glacier National Park for 1,000 miles. Green fields, sparkling blue lakes, snowcapped peaks. The first few days we didn't ride more than an hour at a time as the photographers among us had to shoot everything in sight.

MSF and son Robert at the Circle itself

All the guidebooks I have seen talk about border crossings and papers, etc., but although I can't say you don't need all the papers, we didn't have any trouble at borders. We went through the borders of France-Belgium, Belgium-Holland, Holland-Germany, Germany-Norway, Norway-Finland, Finland-Sweden and Sweden-Norway with nothing more than a brief glance at passports. If that. Couple of the borders were closed for rain and holidays, if you can believe that.

Harley-Davidson motorcycles have fans everywhere. As soon as we were spotted by bikers, they had to see the Harleys, ask about cubic centimeters and prices. Harleys made us heroes on the road.

We were having a spot of trouble, as it happened. A truck pulled in front of Forbes on a detour and he dropped the 800-pound Harley FLT, something one does not do lightly. He was bruised and he needed a rest; his heavy cycle's fairing was askew. The Harley 74 I was riding had broken a wire on the rough dirt road and the battery was flat, which I didn't

The deckhands on this freighter had not unloaded a motorcycle before, so the cyclists did the job themselves

know until it wouldn't crank over.

A local biker looked at the FLT and commented that it was leaking oil. Forbes was fascinated by the exchange. First that this guy had spotted instantly something Forbes wouldn't have seen in a year; second, that I had writhed with the loss of status that comes from arriving on a dream machine that wasn't in tip-top shape. But one of the bikers invited us to his shop, where he charged the battery, helped with the new wires and the whole crew volunteered to aid in getting the Harley FLT back in alignment.

As a gesture of thanks we bought the first round and let the Norwegians sit on the FLT. Yeah, I know about taxes and import bothers and all that. But, if Harley ever decides to do something about the balance of payments and get serious about exporting, they have a potential market consisting of every biker nut we met in Europe. Meanwhile, it made me proud to be on a 74.

Along in here somewhere we crossed the Arctic Circle. We rode up a pass through a mountain range and the trees got smaller and more scrubby, then disappeared. Raw grass, rocks, glaciers to the left and right, windswept granite and right at the top of the bleakness was a sign proclaiming the Arctic Circle. The air was cold, the sun was weak and by Admiral Byrd it surely did look like it should. I was glad I had two sets of woollies, then a wool shirt and sweater, then leathers under my thermal rain suit.

I was even more glad when we rode down the other side of the pass and found pine forests, then little farms and fishing villages. The Gulf Stream warms the coast of Norway, so it's much warmer for its northern position than you'd think. We took advantage of this by riding along the coast, with skips from mainland to islands and back on a series of coastal freighters and ferries.

One of the reasons for the ride was to see the midnight sun. We had the route and stops planned so we'd get to go to the top of the world in time for the sun to not set. Longest day of the year in an area where they have no sunset for ten weeks. When I first heard about this I spent some time with a globe and a lamp, figuring: "If the sun doesn't set, *where does it go?*" Now I know. The sun makes a big circle, as if a lasso artist were making a loop above your head.

More strange was the loss of a sense of time and orientation. We'd get up at what seemed like midmorning, ride for 11 or 12 hours, have dinner, work on the bikes and go to bed at what felt

like midafternoon, more tired than we felt entitled to be because obviously the day was still young. The natives adapt, they told us, but I never did.

Finally, Cape Nord. There's a little town at the ferry stop, packed with tourists as you'd guess, then you ride 20 or so miles up into the mountains and right to the edge of the world.

Not a friendly place. Windswept, cold, no trees, land's end for Europe is a barren cliff with cold gray seas stretching as far as the eye can see. Just what I had hoped for, in sum. We'd made it and now the trip home would be all downhill.

And so it proved to be, except that there's more than one meaning to downhill.

With goal achieved, we picked up the pace. Back into town, back onto the ferry, back through what has got to be the worst tunnel in the world—made even more horrible on the return trip by the presence of a gravel spreader—yes, midway through. We'd thought the slime on the road was accidental but no, they haul it there on purpose. Two miles' worth, hitting potholes in the dark while trying to keep between invisible walls. We emerged upright and headed for Finland, southbound and down.

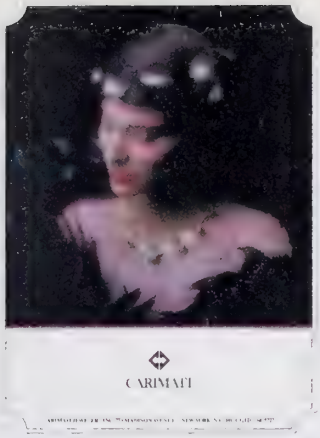
For a couple of days I'd been worried about the Harley 74's back tire. The rough roads had taken a toll. "Oh, relax," Forbes said. We'd been running hard, 70 and 80 mph with Forbes on the 74 for several hours. We slowed for a small town with a pedestrian crossing and BANG! Soon as I heard it, I knew what it was and sure enough, the tire had popped and put Forbes across both lanes, lock to lock. He'd kept the bike upright.

When we had our hearts going again, we reflected briefly on how it happened that the tire went just exactly at the only time all day it could have gone without serious consequences. Malcolm Forbes is a lucky man.

Not even the Forbes luck could interfere with the next event. We'd arrived at the height of the midyear summer holiday. I can't say that everybody in the Finnish town was drunk. Instead, everybody we met was drunk, all the stores were closed, there was no way we'd get a new Harley tire in less than a week, if then.

So we repacked and Forbes and son doubled up until we'd crossed the border into Sweden—closed, or maybe I should say open and unguarded, because of the holiday. Next morning we took Malcolm to the airport and we remaining four headed down the coast to Sweden.

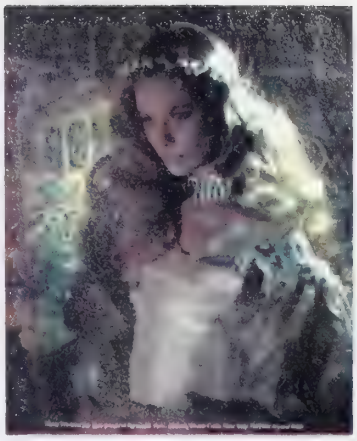
The five bikers at Europe's north edge, which is marked by this striking sculpture just a few feet back from the cliff



ONLY ONE OF THESE ADS IS A JEWEL

In the Carimati ad, the necklace captures your eye. The lady of indeterminate age is one with whom many are likely to feel they can identify.

But with such an extraordinary beauty in the Harry Winston message, who would even notice the necklace? Who among those able to afford such a piece can see herself as a young, ethereal bride?



GIVING BIRDS THE BIRD

Twenty-three years ago, during the course of preparing a cover story on the U.S. Navy, I remember with unrelish spending a couple of days grounded in Guam because runway gooney birds had conked an engine on the C-5A we were aboard. Coping with goonies meant coping with bird lovers, and the combination grounded many a plane and Admiral.

So some of us could see a certain irony (after a safe landing) when, recently, two of three engines on a jet headed for a New York runway were knocked out by a flock of birds. Among the jeopardized passengers was Mr. Les Line, the editor of *Audubon Magazine* and vice president of the National Audubon Society. Said he: "It was a bit disconcerting. The pilot was very apologetic to me for killing the birds. I told him, 'Better the birds than me.' "

A different line from the older Line.

TERROR

seldom terrifies its target.

TO LIVE YOUR LIFE

in the fear of losing it is to lose the point of life.

LET'S NOT GO OVERBOARD WITH MONETARISM

By M.S. Forbes Jr.

Never before have monetarists been as dominant in policymaking circles as they are today in the Reagan Administration. So heavy is the pressure they are now putting on the Federal Reserve Board that one can say the central bank is coming under de facto monetarist rule. The Fed has had a baleful impact in its attempts to regulate economic activity by manipulating interest rates. Will monetarists do better than the so-called Keynesians?

The answer: probably not.

Inflation is caused by too much money chasing too few goods, says Milton Friedman and his followers. Ergo, if you control the money supply (M1A, M1B, etc.), bring it down to, say, a 4% to 6% growth rate per annum, you can wring out inflation and restore economic stability.

Monetarism, though, has fundamental flaws when it comes to the real world.

What measure of money do you use? The proliferation of new financial instruments obsolete new yardsticks almost as quickly as they are created. The Fed, for instance, is having a devil of a time in adjusting its Ms as people switch money out of their checking accounts into NOW accounts.

A growing number of monetarists acknowledge the shortcomings of the Ms, such as M1B, and argue that the Fed should concentrate on what is called the monetary base (bank reserves plus currency in circulation), which is more susceptible to direct control by the central bank.

But even this tool, though far better than others, is awfully imprecise for fine-tuning credit policy. Between 1972-80, the annual growth rate of the adjusted base ranged from about 7% to 9½%. You would never know from such a narrow range that during these years we had terrific booms and serious downturns, that inflation fluctuated between 3% and up to 18%.

A more serious problem that monetarists overlook is the importance of demand for money. To take a historical example: In the latter part of the 1930s, banks had ample reserves, the stuff for "creating" money. But creditworthy borrowers weren't borrowing; the economy didn't much grow. Pushing a string is what the phenomenon was called.

More recently, the Fed excused its poor performance in the latter half of 1980 because, in the words of a spokesman, "We didn't anticipate such strong economic activity."

But that's the point. What amount of credit is adequate for financing, say, a 4% growth rate? Is it 2%? Or 5%? Or something else? One can come up with convincing historical or computer-created evidence to support almost any answer.

A rigid devotion to one of the Ms or even to something like the monetary base can create havoc, given the delicate condition of our financial markets *(see Columnist Ashby Bladen, p. 185)*. One need only look at the damage monetarism has wrought in England to see the potential dangers.

Fortunately, President Reagan is a man of sound instincts, as his advocacy of tax cuts in the face of opposition from most "experts" testifies. Let us hope he puts a rein on his monetarists before they create unnecessary problems for him.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Many Davids/12 Goliaths

With only 12 carriers in the Navy, and allowing for repairs, overhaul and training, sustaining two in the Indian Ocean precludes maintaining the Navy's normal positioning of two in the Mediterranean and two in the Western Pacific at the same time. Having not enough to go around is the price we are paying for a policy of procuring a few giant carriers rather than many small ones. . . . The capability to intervene in remote areas requires aircraft carriers that can be placed in harm's way like all other implements of war. That will be possible only when carriers are made smaller, simpler and in larger numbers.

—Stansfield Turner, former CIA Director, *New York Times Magazine*

No Leg Up

Upon hearing a report of two hunters clinging for life to a mountain ledge, Cleveland Amory, chairman of the Fund for Animals, deadpanned, "I'm rooting for the ledge."

—*Town & Country*

Reds Behind Black Ball

Caloric intake, educational attainment, and the ratio of doctors to people all seem to be higher in the U.S.S.R. than in Western Europe, and yet in the U.S.S.R. life expectancy is six years lower, and its infant mortality rate three times as high. There is not a single country in all of Europe in which lives are so short, or babies' death rates so high—not even impoverished, half-civilized Albania.

The biggest problems: alcoholism. The Soviet Union's per capita intake of hard liquor was more than twice as high as America's or Sweden's. Things have gotten to the point where factory foremen mark their workers sober and fit for duty if they can stand. Pollution: misuse and overuse of pesticides and fertilizers, the careless release of industrial waste and heavy metals into the waters, and radiation emitted from poorly constructed or only partially safeguarded nuclear facilities. Accidents: shoddy assembly lines and heavy machinery placed in the hands of drunken workers. . . .

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—Nick Eberstadt, *New York Review of Books*

News Slot

A story about the beef industry belongs in the obituary column.

—Kenneth Monfort, CEO, Monfort of Colorado, Inc.

Fraudulent Inflation

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—*U.S. News & World Report*

CARTOON FEATURES SYNDICATE

Pepper . . . and Salt

"Be careful in the city, my son. Remember, it's a jungle out there."

Demands of Hotels and God

There is no valid evidence that Christianity ever assumed the world would provide maximum security and comfort. The guest at a hotel may make such demands, but we are in no such position to expect this sort of attention from God.

—Reverend Dr. Arthur Lee Kinsolving of Boston's Trinity Church

There are some who believe that luxury is the opposite of poverty. No. It is the opposite of vulgarity.

—French fashion designer Coco Chanel

The Only Way To Go

The only way we can afford the hardware and other military services we need to feel safe living in the same world with the Russians is to have an army of draftees, and pay them minimal wages. That will give us money to spend on other aspects of the military—like giving substantial wages to a valuable cadre of career military people. It now costs so much for our basic manpower we don't have enough to pay valuable people really good wages. You don't see the Red Army or the Israelis using TV ads or high salaries to get people into the military. They conscript them.

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—*Life*

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HOW LONG, OH LORD?

ARE YOU WONDERING WHY THE ECONOMY remains so strong when the prime rate is 20% and long-term bonds are just about unsalable? If so, you are not alone in your confusion. Paul Volcker is perplexed, too. So are the top people in the Administration. They press the brakes. The machine keeps moving.

Until the economy slows, interest rates will remain in the stratosphere

DETERMINED TO SLOW INFLATION, both the Fed and the White House are prepared to let interest rates go as high as necessary to slow the economy and thus head off a new burst of inflation. So far, chiefly the housing and auto industries have been badly hurt by the unprecedented high interest rates. Yet a number of major corporate failures seem imminent and nearly the entire thrift industry is under water. If the economy doesn't slow fairly quickly, continued high interest rates are going to cause financial mayhem. There will be a jarring halt, not a soft landing. Volcker can almost hear the anguished screams from Congress, from the press, from the unions. So can the White House.

Which comes first? A slower economy? Or a far worse burst of bankruptcies than we have already had? Volcker doesn't know. Neither do President Reagan's top advisers. But all of them are keeping their fingers crossed. So should you.

Why the Fed must use a blunt weapon

THE FED REALIZES RECENT CHANGES in the structure of the financial industry have seriously eroded its power to control credit expansion (see Ashby Bladen's column, p. 185). A dozen years ago, it was still possible for the Fed to stop credit expansion through the use of Regulation Q ceilings on interest that banks may pay on deposits. As market rates rose, the Fed held the ceiling unchanged. Soon banks were unable to offer interest rates competitive with the money markets. Deposits flowed out, a pattern described as "disintermediation." Banks worried about maintaining their viability and cut back on new credit extension. Rising interest rates slowed lending operations, too, because banks were reluctant to extend credit at fixed rates when it was apparent that yields would continue to rise.

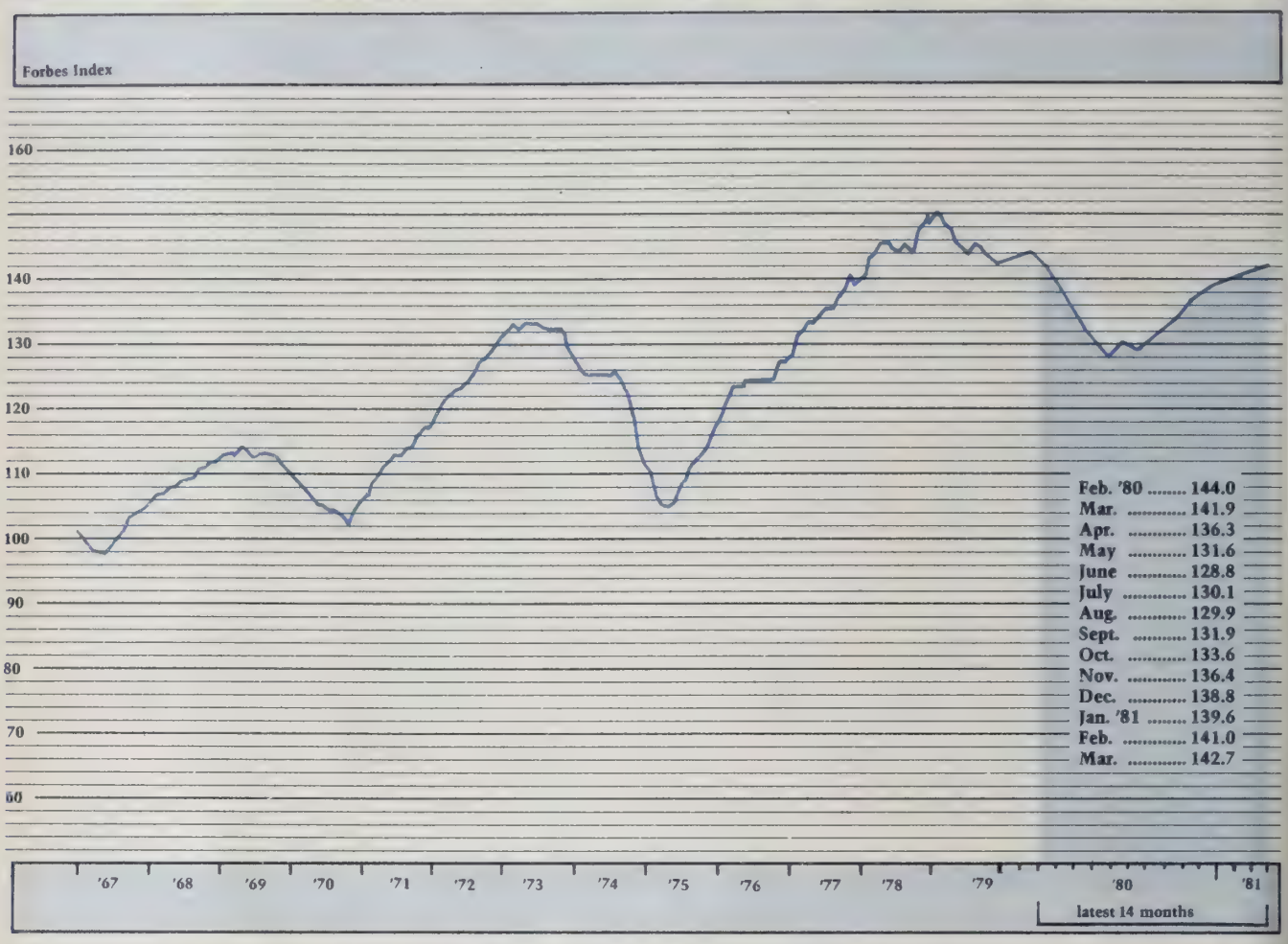
The economy isn't acting the way it's supposed to

IT'S A DIFFERENT WORLD NOW. Banks are indexing almost all loans and liabilities. They couldn't care less how high rates go as long as they can lend money for more than it costs them, which is now easy.

Only weeks ago the President's Council of Economic Advisers still predicted little or no economic expansion during the second and third quarters of this year. The Commerce Department has just raised its figures on first-quarter growth of output to 8.4% from an earlier estimate of 6.5%; 8.4% is boom pace and clearly unsustainable. Now it is agreed that real GNP growth for this quarter will be in the plus 2% to 4% range, as against original estimates of plus 1% to minus 1%.

What the Fed now needs to know is this: When push comes to shove will Congress and the White House back the central bank even at the cost of massive bankruptcies? Or, will the politicians, following their natural instincts, lose their nerve? Is Ronald Reagan as tough as Margaret Thatcher? Paul Volcker will soon find out.

The Forbes Index



The Forbes Index Components

Climbing, on borrowed money. Consumers took on more than $1 billion in debt, and that helped move the Forbes Index up this reporting period, but hardly for the best reasons. There's a good-news side though, since loans in the prior period increased by almost $2 billion. At the same time, industrial production kept climbing. It's now higher than at any time in the past 18 months. Retail sales, which had been rising, dropped below March levels.

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

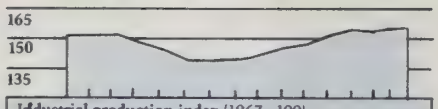
Total retail sales

New housing starts

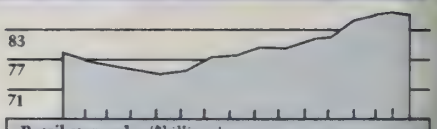
Personal income

The change in the amount of consumer installment debt outstanding

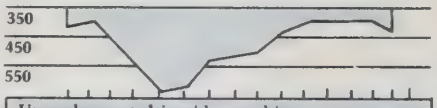
To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



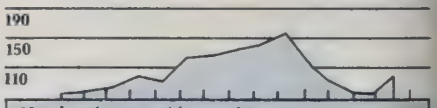
Industrial production index (1967=100) seasonally adjusted (Federal Reserve)



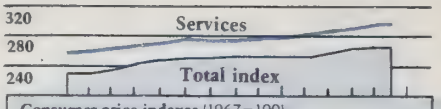
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



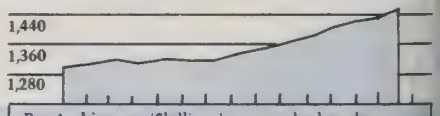
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)



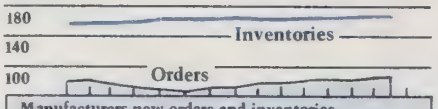
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



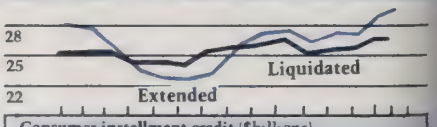
Consumer price indexes (1967=100) all urban consumers, unadjusted (Dept. of Labor)



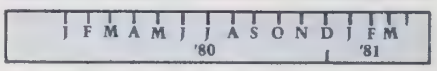
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

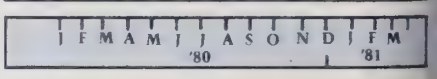


Manufacturers new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)





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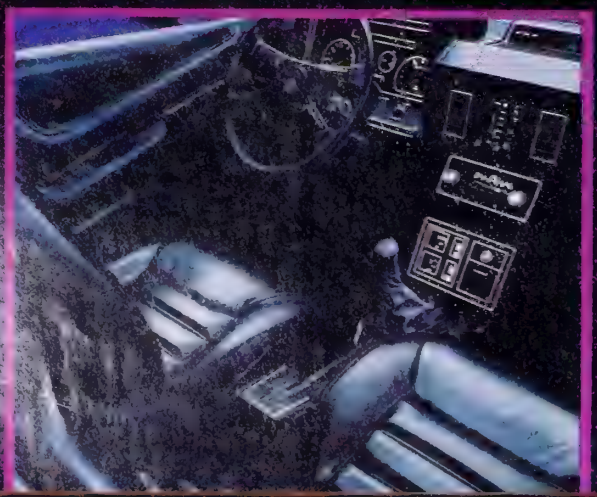

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he MX basing plan—4,600 holes, 8,000 niles of roadways—is as good as dead, ut nobody wants to pull the trigger.

Bye-bye, birdie

By Jerry Flint

THE PLAN TO DIG 4,600 connected holes in Utah and Nevada for 200 MX missiles appears to be ying. It's not that the Pentagon or he Air Force is willing to say this. It's ot that groups like the Council for a ivable World or Environmental Action oppose the project.

No, it's when hard-line, pro-defense nilitary analysts begin to conclude hat the 4,600-holes-in-the-ground lan is dying that it truly is likely to e dying.

"Realistically, it looks like it's going to sink," says Jeffrey Barlow, national security analyst at the Heritage oundation, a Washington think tank vith impeccable right-wing credentials. "It's not dead yet, but it is teetering on the edge."

Jake Garn, Republican Senator from Utah, complains that the missile should be put into existing silos and defended. "That makes a great deal more sense than some Rube Goldberg system of roads," he says.

The president of a major company involved in the MX program says the decision last month of the Mormon Church to oppose the basing in Nevada and Utah probably was the last straw. "We've got to recognize the strength of the Mormon Church. If they hadn't come out against it, I think we'd have it. A lot of Sierra Clubs object, but they object to everything." But don't use my name, he pleads. "Sooner or later there's going to be a leak from the Townes committee [the latest Pentagon study group, due to report next month] "and I don't want to be blamed, not that I have any inside information."

Indeed, President Reagan is on record as criticizing the 4,600-hole plan. Even so, the huge project will probably die slowly. A simple decision to kill the basing system could have political repercussions in Europe, one defense analyst figures, encouraging those who don't want new, shorter-range missiles based there. Instead there could be a muddling along—no outright decision to kill the "shell game," as it's been called, but a slow death through delay. Then, when the new missiles start arriving in the middle 1980s they would be nested in temporary silos that eventually would become permanent homes. The Air Force, meanwhile, will be getting its new B-1 bombers and not as likely to complain.

The problem with the MX missile program is that it tried to be too many things. First the military sought a more accurate, more powerful weapon. The MX—weighing 192,000 pounds, carrying ten individually targetable warheads against three on the latest Minuteman rockets—was the weapon. It could even fit into the old Minuteman silos.

Then came the worry that by the mid-to-late 1980s the missile silos could be destroyed in a first strike attack by growing numbers of more accurate Russian missiles. Although the U.S. still would have its bombers and submarines and maybe cruise missiles, the planners figured that the possible loss of the land-based missiles would weaken the U.S. retaliatory threat. Out of that came the idea of the mobile MX with 4,600 holes and 8,000 miles or so of roadway and missile transporters. There would be only 200 new MX missiles, but the Russians couldn't guess which holes all of those 200 were in. The 4,600-hole figure was based on how many warheads the Russians would have available under arms limitation treaties. If it later turned out 4,600 holes weren't enough, we could always dig more.

On top of that came the idea of making the missiles visible—at

times—to prove to the Russians that we had just 200 missiles and not 4,600, thus satisfying arms limitation considerations.

Cost estimates were always vague. The figure usually started at around $35 billion, but considering the size of the program and the general history of military low-balling, $100 billion might be more like it. The bulk of the money wasn't for the missile, to be assembled by Martin Marietta, but for the holes, the roads, the transporters and the like.

The demise of the 4,600-hole plan doesn't threaten the missile itself; it just opens a new fight about what to do with it. Defense Secretary Caspar Weinberger has shown some interest in putting the MX to sea in surface ships or a new fleet of small, coast-hugging submarines. Whatever the merits of these ideas, the Air Force isn't likely to be enthusiastic about spending its budgetary billions on a missile that will be off to sea with the Navy—and the Navy isn't likely to be terribly interested in the scheme since it's building $1 billion-plus submarines to carry its own nuclear warhead Trident missiles.

There has been some talk the last few weeks about the "Winnebago" approach, a new smaller missile that could be lugged around the countryside on small trucks to fool the Russians. But starting fresh to create a new simple-to-launch missile isn't going to be too popular.

The most likely alternative today seems to be a return to an old idea: modifying the new MX and stuffing it down the old Minuteman silos. That leaves the planners with the old problem of vulnerability to future, improved Soviet missiles. The answer that seems to be blowing in the wind is to defend the missile silos with ABMs, or antiballistic missiles, now sometimes called BMD or Ballistic Missile Defense.

That will reopen the old battle politically—the U.S. and the Soviet Union agreed generally to renounce the ABM—and scientifically, because it isn't all that certain that an effective shield can be built.

What it all boils down to is this: Killing the proposed missile basing system isn't necessarily going to save much money. We're probably going to begin development of a costly antiballistic missile—rockets to defend the rockets. So, there will be plenty of work for the defense and electronic people. About the biggest loser will be the cement industry. The originally proposed system would have required millions of tons of cement. ■

Lewis Lehrman is asking politicians to make the supreme sacrifice: Give up control of the printing presses.

Return of the golden rule?

By Thomas O'Donnell

"I'M A BUSINESSMAN, not an intellectual," insists Lewis Lehrman, leaning against a wall in his spacious, sunswept office 25 floors above mid-Manhattan.

Lehrman makes that distinction even though he has made heavy waves in practical economics, following his highly successful business career. He advocates the theories of Jacques Rueff, former French finance minister whose career Lehrman, one-time president of Rite Aid drugstores, has closely studied. Lehrman has even set up a think tank to examine arcane issues of international finance and preaches a pro-gold economic religion with a zeal that would impress Jerry Falwell.

Lehrman wants the world to return to a gold standard, where money would be convertible into gold at a fixed rate. Until recently, such efforts would have marked him as a minor eccentric, but things have changed. He has moved the editorial page of the *Wall Street Journal* toward his cause. And writes Barton Biggs, a Morgan Stanley economist: The return of the gold standard "could be the economic and political issue of the 1980s."

Already, Congress is dealing with two gold-standard bills based largely on Lehrman's thinking. One, sponsored by Senator Jesse Helms (R–N.C.), calls for keeping gold reserves of about 50% of the monetary base. Another, by Representative Ron Paul (R–Tex.), would be even tougher, requiring convertibility of 100% of the money supply.

Lehrman has considerable clout with the Reagan Administration. Although only 42, he has been a mentor for David Stockman (who telephones occasionally for advice) and has influenced other high Administration supply-siders as well. Lehrman's paper outlining the nation's economic problems was the basis of the famous Kemp-Stockman memo that warned of an "economic Dunkirk."

The superconfident and reed-slim Lehrman, a sometime jogger who ran a marathon two years ago on a dare from his son, was even considered for several high government posts. Representative Jack Kemp, in fact, plumped for him to become Secretary of the Treasury. But Lehrman lost out largely because of his unwillingness to compromise. "I would actually have done the things the Administration says it wants to do. I also told them I didn't want a job. I wanted to implement Reagan's policy."

Lehrman's objective is an overhaul of the U.S. financial system similar to the one engineered in France in 1959 by Rueff, whom Lehrman calls the "outstanding philosopher/economist of the 20th century." Rueff's economic program consisted of convertibility, deregulation and a balanced budget. According to Lehrman, that assured the success of de Gaulle's Fifth Republic, which had previously been almost an economic basket case.

Lehrman feels the same thing could happen here and his reasoning is simple: Without something solid to back them up, the ever-increasing pile of dollars cranked out by the Federal Reserve's printing presses are destined to lose value. Monetarists, of course, believe that a gradual, controlled expansion of the money supply is essential to a stable economy, while Keynesians think fiscal policies are more effective. Both sides depend

wis Lehrman at Lehrman Corp.'s mid-Manhattan office
difficult task: forcing people to think.

pon human decision-making for im-
lementation. Lehrman prefers the
npartial discipline of a gold stan-
ard—which he sees as the *only* way
stop inflation.

Lehrman, who grew up in Harris-
urg, Penna., came by these once-ar-
haic views while studying history
nd government at Yale. He graduated
1960 and then picked up a master's
egree from Harvard on a Woodrow
Vilson fellowship. Soon, however, he
ecame unhappy away from the real
orld and returned home to run the
mily's wholesale grocery firm. Be-
ause of supermarket competition,
ehrman and Chairman Alex Grass
ecided to add discount drugstores.
esult: Rite Aid, a national chain
ith $944 million annual sales. Grass
ow runs the business, and the fam-
y's stock is worth $92 million.

That success allowed Lehrman to
ove his wife and five children to
lew York City where he has lived
nce 1973. "I was able to return to
y first love, the history of ideas." He
as also able to realize a youthful
ream: establishment of the Lehrman
nstitute located in a townhouse on
Manhattan's Upper East Side. Lehr-
an divides his time between the in-
itute and Lehrman Corp., the fam-
y's money management firm.

Founded with $3 million, the insti-
ute brings scholars together with
usinessmen, politicians and journal-
sts. The objective is to break down
e barriers between academe and the
utside world. Although a neutral fo-
um, the institute has become a
awning ground for free-market the-
ry, supply-side economics and gold-
andard crusading.

How can gold end inflation? Answers Lehrman, who hasn't a doubt about the validity of his views, "If the Fed prints too many dollars, they can be traded for gold at a fixed rate. The Fed couldn't allow its gold reserves to be depleted. So control of money would pass from economists and politicians to the marketplace."

That, of course, sounds terrific, but is it politically possible? After all, neither gold standard bill is likely to pass this year. Moreover, the Reagan Administration has become dominated by monetarists who think the economy can be managed by prudent men making prudent decisions—something Lehrman contends has rarely happened anywhere.

At the moment, the key battle is being waged around the staffing of the gold commission. That's the body, set up by an amendment that Helms and Paul tacked on to a law last fall. It will probably have 17 members and is scheduled to complete a report by October. If the "right" individuals are chosen and a favorable report results, the gold standard would then take a giant step forward, say the hard money optimists.

When it is to his advantage, Lehrman can marshal powerful historic arguments for his case. In the 19th century, for example, there were few holders of the metal; currencies pegged to it generally were as good as gold. Professor Roy Jastram of Berkeley's business school found that the U.S. wholesale price index in the 1930s stood where it was in 1800. But then the U.S. left the gold standard and since then the index has soared by over 600%.

Unfortunately, those numbers ignore the most serious flaw in a gold standard: the sharp price swings it can cause. Lehrman's critics point out that the standard did not prevent inflation, but rather counterbalanced it with deflation. There were, by one count, eight "panics" in the 1800s in the U.S. alone. At the end of 130 years, you were right back where you started from but you had suffered through severe financial crises in between, says one monetarist.

Lehrman, however, contends a new gold standard would be relatively free from such swings. And in any case, "such cycles are no longer our major problem. Inflation is."

Another objection to the gold standard: The Soviet Union and South Africa are the leading producers of gold. Why adopt a policy that might help these two states? Lehrman has heard this argument many times before and gets angry: "This business about Russia and South Africa is a canard," he says, running a hand through his prematurely white hair. "And a foolish one."

Lehrman argues that gold production in any year is only a fraction of the amount in existence. Thus, if these two nations dump or withhold the metal, the impact on the rest of the world would be negligible.

Despite Lehrman's crusading, the gold standard remains a fringe movement. "Any attempt to return to [it] would be very dislocating to the economy," contends Edwin Meese, one of Reagan's top advisers. Adds Edward Bernstein, a respected economist and former high Treasury official, "It simply doesn't make sense in today's world." He contends the very conditions that would make adoption of such a move possible—budgetary discipline, tight monetary policies and higher productivity—would themselves solve the many problems.

What has thwarted the gold standard movement, however, is the simple fact that it asks the world's politicians to give up the power to intervene in the economy. Without this power how can they buy votes?

Such criticisms don't deter Lehrman. "A return to the gold standard is inevitable," he concludes. "Either it will come through legislation or it will be brought about by catastrophe, specifically runaway inflation." Should that happen, Lehrman may well become the nation's economic savant, much like Rueff in de Gaulle's France. But even if conventional policymakers continue to rule, Lehrman is performing a difficult and useful task: He's forcing people to think. ■

The collapse of the franc doesn't mean the French think that the Socialist election victory is the end of the world. They are simply behaving like Frenchmen.

Napoleons in the garden

By Richard Phalon

According to a public opinion poll, the French think of themselves as being, above all else, intelligent. All nations—as the same poll, carried further on an international scale, indicates—also consider themselves to be intelligent, but France was the country which placed intelligence highest, as the virtue admired most.

—Theodore Zeldin
France 1845-1945
Ambition & Love

The French may admire intelligence above all, but *débrouillardise*—a peculiarly Gallic brand of street smarts—has always run a close second, and never more so than now, in the rout that has followed the election of Socialist leader François Mitterrand as president. The franc has been pushed to the lowest level in a dozen years and the stock market savaged by the worst selloff since 1936—the start of the Popular Front and the last time France was governed from the left. How is a man of property to cope?

"You boom on dollars," says Pierre Feuchtwanger, manager of Bache Halsey Stuart Shields' Paris operations at Rue St. Honoré. "You cover yourself." Even before the election the American subsidiaries of some French companies began to protect themselves by prepaying loans here while the franc was still at a reasonably good level.

The U.S. has its own anxiety index, of course, but there is nothing in the latter-day American experience that begins to compare with the manic quality of the flight from the franc. It's nothing new to the French, though, and that's why so many well-to-do Frenchmen have traditionally cached a major share of their assets in Swiss accounts, well beyond the reach of currency exchange controls that limit transfers of more than 5,000 francs out of France without permission.

Pushed by fears that Mitterrand's accession means inflation and a resurgence of Communist influence, pulled by record interest rates in New York, francs have been pouring into U.S. Treasury bills, government bonds and stocks. "The French are buying enormous amounts of American stocks," says Pierre Feuchtwanger.

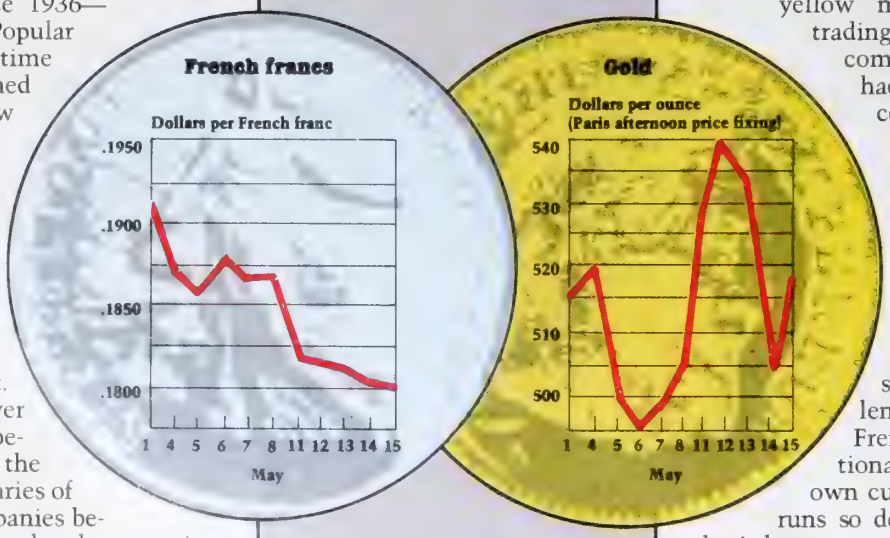
Flight capital that doesn't slip through the more sophisticated conduits of Swiss accounts typically moves over the French border in knapsacks or in the trunks of autos. "Wherever you have export controls, you have a million ways to get the money out," says Peter Treves of Treves & Co. "Some of that money has been in Switzerland more than 50 years. It's part of the overseas patrimony of France." French editors have been giving a lot of space to the news that customs agents are on special alert to watch for illegal currency exports, but much of the emphasis seemed somehow to fall on how thinly manned the border crossings are. "Something serious happens," shrugs David Bodenberg, a Merrill Lynch vice president who specializes in the arcana of European markets, "and [the French] turn it into a farce like *Monsieur Hulot's Holiday*."

It is in many ways a familiar scenario. Mitterrand got a plurality of the French vote, but that doesn't mean he's got a majority of French pocketbooks behind him. "The average Frenchman is a conservative to his toes," says Guy P. Wyser-Pratte, a Bache executive vice president and arbitrageur who was born in France. "He wants to put some money where Mitterrand can't get at it."

One sign of the frenzy to do just that showed in the gold-trading room of the Bourse, where prices for the yellow metal soared while trading in dozens of major companies that at times had to be shut down completely for want of buy orders. France's huge hoard of private gold, an estimated minimum of 3,500 metric tons, worth about $64 billion, is one of the most visible signs of the ambivalence with which Frenchmen have traditionally viewed their own currency. The caution runs so deep that the French don't bat an eye at the surcharge of often more than $20 an ounce over London prices (it jumped to over $50

Double whammy

The plunging value of the franc and the soaring price of gold after the May 10 election shows the immediate French reaction to the first left-of-center government since before World War II.



Sources: Bank of England, Morgan Guaranty Trust Co. of New York

ust after the French election).

For those who cannot afford big icket bars and ingots, there is the napoleon, the 20-franc piece France stopped minting in 1915. The coin is about the size of a nickel—easy to carry, easy to hide. It contains a little ess than a quarter-ounce of gold, and preelection could be bought for about 300 francs. Postelection, the napoleon shot to 950 francs. Some of the gain, says Ann Marie Tsimortos, a vice president at Manfra, Tordella & Brookes, Inc., a major currency and coin trading firm, came from the double whammy of the drop in the franc and the rise in gold. Most of the lift, though, reflected heavy demand. "In times of uncertainty," says Mrs. Tsimortos, who is French herself, "the French buy napoleons and bury them n the garden."

The rapidity of the French response under pressure is the heritage of bitter experience. "Changes in the political economy have always brought tremendous fluctuations in the value of the currency," says Tsimortos. "Those who lived through World War I know that many managed to escape only because they had gold to trade.

Ironically, the worst prepared for the break in the franc may have been the small investors enticed into stocks by the tax credits the Giscardians hoped would stimulate more enthusiasm for equities *(see* FORBES, *Dec. 25, 1978)*. Much of the stock flung at the market in the first days of the panic appears to have come from these novices. Many of them have been so badly burned that they are not likely to rush back into stocks even if Mitterrand fails to get a parliamentary majority behind his generally inflationary *110 Propositions Pour La France*. "These things are greatly exaggerated," says Pierre Feuchtwanger, "but people are frightened."

Zero-sum games can be frightening. But true chauvinists here (another one of those French words) will find it hard not to cheer for some of the obvious winners—expatriates like Norman Jacobs, who, for a change, are nicely in pocket, thanks to what amounts to a de facto devaluation. Jacobs moved from New York to Paris four years ago, after retiring as editor of the Foreign Policy Association. For most of that time, his retirement benefits got stretched thinner as the franc rose and the dollar sank. Now the rent Jacobs pays on his apartment not far from the Arc de Triomphe has dropped by the dollar equivalent of 25%. "A lot of the French are scared purple," says Jacobs, "but right now, I couldn't be more pleased." ■

Following in the tradition of Harold Geneen and Harry Gray, Ed Hennessy is conglomerating the old Allied Chemical. If he seems in a hurry, there's good reason.

No time to waste

By Thomas Jaffe

REMEMBER SLEEPY OLD Allied Chemical Corp.? Well, it has dropped the "Chemical" and you can't say it is sleepy anymore. Quite the opposite. Edward Hennessy Jr., chairman since 1979, is transforming Allied at a pace that must surprise even his onetime bosses, Harold Geneen and Harry Gray. Old-timers would scarcely recognize the $6.5 billion outfit.

Edward Hennessy Jr. of Allied Corp.
A fast stiletto and a fat purse.

Just last month Hennessy, 53, announced the $358 million acquisition of Bunker Ramo Corp., a $468 million (sales) leader in electrical and electronic connectors. The same week that deal was announced, $621 million (sales) M. Lowenstein Corp., a textiles and glass fiber producer, reported that acquisition talks with Allied had broken off. The price tag there would have been an estimated $163 million. All this followed the 1979 acquisition for $592 million in cash of Eltra Corp.—then a $1 billion (sales) manufacturer of batteries and phototypesetting systems—and a couple of abortive moves last year, including a $740 million bid for Esmark's U.S. oil and gas outfit, which fell a mere $100,000 short (although Allied probably would have needed partners after the deal went through), and an unsuccessful pass at Houston Oil & Minerals. HOM eventually went to Tenneco for $500 million after 75% of its producing acreage's profits were spun off to HOM's shareholders.

But listen to Hennessy: "I'm impatient we're not moving faster." Recently, Hennessy lined up from a 27-bank syndicate an eight-year, $2 billion credit line earmarked for future conquests.

It's easy to understand why Hennessy is running so hard after acquisitions. For the better part of two decades Allied, with its catalog of low-margin commodity products, had been the sick man of the chemical industry. The company had been supported from the mid-Seventies by profits from predecessor John T. Connor's shrewd move into North Sea oil and Indonesian natural gas. But the gains in oil were offset substantially by badly faltering coal and coke operations and a Louisiana gas pipeline stuck with cheap contracts to fulfill. Between 1974 and 1978 these operations ran up over $500 million in losses, dragging Allied's return on equity from 17% to just 10%. Meanwhile chemicals, fibers and plastics—roughly half of the company's $3.2 billion assets in 1978—generated a disappointing 9.4% operating return.

"I'd never been in a position before where I had to go into a company and use the stiletto to tear things back," says Hennessy. Getting the knife almost immediately were coal and coke, that gas pipeline and marginal

chemical units, for a total $146 million in writeoffs in 1979. Also axed were 870 employees in middle management. Along the way Hennessy managed to float a $217 million equity offering as well as pare away some $200 million in short-term debt.

But the faster he ran, the more Allied's troubles seemed to gain on him. Thanks to OPEC, Allied made fat oil and gas profits in 1980. But the Eltra acquisition stumbled badly, and oil and gas ended the year at 81% of Allied's total profits. Although chemical earnings were up 62% in 1980, they were still threadbare. The plain fact is, too much of Allied's business remains commodity-related.

Allied needs not only new end-product applications for things like high-density polyethylene and other engineered plastics, but also new manufacturing processes to lower costs. While Hennessy has more than doubled the corporate research and development budget since 1979, at $145 million it still will amount to no better than 3% of estimated non-oil-and-gas sales this year—merely average by industry standards. Considering the ambitious target he has set for 1985, it is questionable whether that will be an adequate effort. "My overall goal by 1985," says Hennessy, "is to maintain the level of oil and gas profits, but reduce our dependency on that business. If it works out, oil and gas will be 50% or less of the company's total operating income."

One problem is that Allied's tax rate last year was a punishing 69%. "If we had domestic income to counterbalance the North Sea oil," says Hennessy, "our taxes would be considerably lower, and there's a heck of an earnings gain just built into that reduction." The sooner this happens the sooner Allied also will be able to crack into over $100 million in investment tax credits and around $200 million more in deferred deductions it has piled up in the U.S.

So Hennessy has been shifting Allied's oil and gas exploration back to the search for U.S. reserves. Over the next five years the company will spend $2.5 billion on exploration, as much as 40% of it here. Had the deal for either the Esmark unit or Houston Oil & Minerals gone through, Allied might have cut short at least part of this process. That's why Hennessy intends to keep right on looking for companies with U.S. oil reserves.

You also can bet that if any chemicals, plastics or fibers operations don't look like they're achieving the desired level of profitability, Hennessy won't be averse to using his knife on them and then reinvesting the proceeds in acquisitions.

Hennessy clearly thinks he can keep dilution to a minimum from such acquisitions. "Say there was a company that had $1 billion in sales. Half of it was in the specialty plastics area that we really wanted. As for the rest, suppose there was a fast-food chain, maybe movie houses, even a baseball team or something. We'd make the acquisition with the full realization we were going to dispose of those other properties." Allied's plan to acquire M. Lowenstein's glass fiber business fell through because it couldn't close a deal with a buyer for the company's moneylosing apparel fabrics operation.

There are no other pending acquisitions at the moment, he says. But there is a fair amount of potential divestiture. A Kentucky coke facility that has run up over $40 million in operating losses since 1979 is still up for sale although, with no more contracts to fill, Hennessy expects it to be near breakeven by year's end. Then Allied has a $105 million investment tied up in a South Carolina nuclear fuel reprocessing plant. If the government doesn't come through with $14 million to fund its operation through the end of fiscal 1981, Hennessy will write it off in the third quarter. "I'm not putting in another dime of our money," he assures. In fact, he'll time the writeoff to coincide with the $300 million or more in extraordinary gain Allied should receive by then from the sale of its Canadian oil and gas business.

Hennessy is only too aware that the banks were willing to loan Allied its $2 billion acquisitions kitty on the strength of its present oil and gas cash flow. He also knows that the earnings stream won't last forever. Hence the frenetic acquisition hunt. Hennessy is running fast because he's running against time. ■

Hunt? Getty? To the annals of oil wealth now admit a soft-spoken publicity-shy history buff from Denver.

Remember the name: Anschutz

By Toni Mack

PHILIP ANSCHUTZ, owner of Denver's Anschutz Corp., is slight and soft-spoken, lacking the volcanic presence of a Marvin Davis or the hard-driven edge of a Nelson Bunker Hunt. Anschutz, 42, is a more intensely private individual than either of those well-known rich men. He may also be wealthier.

To begin with, his Anschutz Corp. is an agglomeration of oil and gas properties, millions of acres of exploration leases in 15 countries, over 160,000 acres of ranchland, prime Colorado real estate, a metals trading company, coal mines, uranium reserves and other interests. In total, the value of those assets can be counted in the $100 millions.

But late last year, when the extent of an oil and gas field called the Anschutz Ranch East field became known, it developed that Anschutz is a billionaire.

Anschutz East is the kind of field that gives oilmen goose pimples. The Amoco Production division of Standard Oil of Indiana, which discovered the field, will only speculate that it has reserves of 800 million to 1.2 billion barrels of oil and natural gas equivalent. But Tom Petrie, the Denver-based oil analyst of First Boston Corp., believes Anschutz East to be the biggest find in the lower 48 states since the 1.3 billion-barrel Kelly-Snyder field was discovered in west Texas in 1948. He calculates the reserves at 3.4 trillion cubic feet of natural gas, 420 million barrels of gas liquids and

840 million barrels of crude oil—worth $14 billion at discounted present value. And Philip Anschutz owns upward of 15% of it.

Right now, Anschutz Corp. and the oil companies are trying to agree on how to divvy up that gusher. Amoco will have around 60%, Union Pacific's Champlin subsidiary and Anschutz Corp. will each have 15% to 20% and Mesa Petroleum, Tom Brown Inc. and privately held BWAB Inc. will split the rest. Ordinarily the companies would wait until each had drilled up its acreage to establish the extent and ownership of the field. But Anschutz East's geology is tricky enough that a coordinated plan of development—rather than each company drilling willy-nilly—is needed to ensure that every recoverable drop of hydrocarbons is extracted. Agreement on ownership isn't easy, though, when one-half of 1% of the field is worth $70 million. Negotiations could last the rest of the year.

In Philip Anschutz, for all his quiet speech and mild manners, the oil companies will find themselves up against a shrewd, tough negotiator. It runs in the family.

Philip Anschutz' grandfather was the owner of a bank in Russell, Kans. His son Fred, Philip's father, was an extremely ambitious man. He began as a rancher, but noticed that his friends in the oil and gas business were doing very well. In the 1930s he formed his own contract drilling company and parlayed it into oil and gas interests all over the Midwest. "He had the magic touch," recalls a former partner. "He was one of those men who shoot craps and win."

By 1950 he was looking farther west. "Denver looked bigger, more lucrative," says the partner, "and Fred Anschutz has never backed away from anything big." Soon Anschutz ranches dotted Colorado, Utah and Wyoming—now the heart of the hydrocarbon-packed Overthrust Belt.

Within a few years of his getting a B.S. in business from the University of Kansas in 1961, Philip bought the business from his father, who is now in his 70s. Today Philip leases grazing lands rather than ranching himself. In 1978 he sold the last eight of his company's drilling rigs for $18.5 million.

But Philip Anschutz, a history buff and owner of one of the finest collections of Western art in the U.S., inherited his father's instincts for trading. The Southern Overthrust Belt, where Anschutz owns leases on 2.8 million acres, is a case in point. In 1977 a Phillips Petroleum geologist got a hunch that the southern reaches of the Overthrust formation might yield oil and gas, as did its northern section. Phillips wasn't interested, but Anschutz was. He hired the oil company's geologist and quietly bought leases on 8 million acres, mostly in Arizona. Since it was land no one else wanted, he paid only $1 an acre. Then he began seismic testing and drilling a wildcat well.

Chicago's Peoples Energy Corp. heard about it and bought a half interest. Then, last September, Phillips changed its mind and paid Peoples and Anschutz $25 million for a third of the property, with a promise to spend $35 million more to explore it. That first well has turned out dry, but Anschutz has already recouped every dollar he spent on drilling, seismic testing and rentals—and perhaps a little more. If he wished, he could probably sell his interest right now for $5 to $10 an acre.

"That's the way he operates," says Joe Downey, land manager in Phillips' Denver office. "Get in for dirt cheap and promote parts at a profit. Then if you hit something, it's a real coup. He's a really aggressive wildcatter." He's good at it, too, adds one who should know. "We've done business in and out for years," says Denver oilman Marvin Davis. "He's a knowledgeable oilman and he's a *very* good explorationist."

Anschutz extends the idea of leveraging one key asset to his real estate dealings. In 1974 Oxford Development Corp. of Edmonton, Alta. wanted to get into Colorado real estate. In return for a block of downtown Denver and another in Colorado Springs, Anschutz became a 30% partner with Oxford. To date, Oxford-Ansco has built three office buildings and a hotel in Denver, plus an office building in Colorado Springs, for a total cost of some $170 million—and Anschutz has only put up around $1 million in cash. "We wanted into the market, so we struck a deal," sighs an Oxford man. "Now he gets 30% of anything we build in Colorado."

Today the buildings in place are worth around $230 million, and Anschutz has reputedly considered taking his profits. "Anything he's got burns a hole in his pocket," says a former employee. "He moves his assets around like crazy, constantly reevaluating them to decide whether he should sell them or keep them."

At that rate, Philip Anschutz probably would have made himself a billionaire eventually. The Anschutz Ranch East field just accelerated the pace. Straddling the Utah-Wyoming border in the Rocky Mountains, Anschutz East was discovered by Amoco in 1979. It looked like a nice discovery—bigger than the Anschutz Ranch field, with its potential 500 billion cubic feet of gas, a couple of miles to the west—but nothing to get excited about. Then a few more wells were drilled, and Amoco knew it was on to an elephant.

What's more, a duplicate field may lie right next door, under more Anschutz land. Anschutz East lies to the west of a fault line, where geological forces have pushed one block of earth up and angled over another. Geolo-

The Anschutz Ranch East field on the Utah-Wyoming border
Enough oil and gas to create a quiet fortune.

gists believe that the stratum of rock that forms Anschutz East continues to the east of the fault, some 2,300 feet further down. An Anschutz well drilling to the east has already found hydrocarbons.

Those hydrocarbons won't be easy to get at, however. In oilfield parlance, the field is "retrograde," meaning that as gas is pumped out, pressure in the reservoir drops quickly, so that gas no longer flows to the well. Nitrogen probably will be pumped in to keep the pressure up. Then there's the rocky terrain, where snow can linger until June, and the fact that the reservoir lies some 14,000 feet below the surface—all of which makes Anschutz East an expensive proposition. It will take five years and $300 million or more to develop.

No one, of course, doubts that it's worth it. Anschutz East will eventually have some 60 wells producing a total of 60,000 barrels of crude and 240 million cubic feet of gas a day. At current prices, that's a total annual cash flow of nearly $900 million.

And so negotiations continue over the precise shares of ownership of all that mineral wealth. They are complicated by the fact that Philip Anschutz is suing Union Pacific over the railroad's mineral rights, as are three other area landholders. The suit was filed in 1977, long before Anschutz East was discovered, but now the adjudication has taken on heightened importance, especially since Amoco owns its interest by virtue of leases from UP. UP has had claim to the land since the 1860s, when the Congress granted the railroad every other 640-acre section in a 40-mile swath along the railway UP built to span the West. UP long ago sold surface rights to most of the land—and with them, claims Anschutz, UP sold the rights to oil and gas underneath.

The Federal District Court in Wyoming has ruled in three of the suits that UP still owns the minerals. Those decisions, two of which are now on appeal, could set a precedent for Anschutz' suit. He may have only a slim chance of winning and getting a larger piece of Anschutz East, but he reckons it's worth trying.

That is, he is surmised to reckon that. Always a private man, Anschutz is even more so today. He refuses to be interviewed, fearing that reports of his burgeoning wealth might endanger his family. But if Anschutz East lives up to early estimates of its size, Philip Anschutz will find it increasingly difficult to keep out of the public eye. Even in an inflationary time, billionaires are a rarity. ■

There is always more than facts and figures to a choice of military weaponry, as the Marines' proposed aircraft reveals.

The flight of the Harrier

By Beth Brophy

If you're sometimes mystified as to just what lies behind the decisions that make up the U.S. defense budget, the Marine Corps' proposed new plane, the AV-8B Harrier, may offer illumination.

The Reagan Administration's fiscal 1982 budget contains $800 million for full-scale development and early production of the Harrier, which will be built by McDonnell Douglas. To date $800 million has been spent on the Harrier program and, if all goes according to plan, some 350 Harriers will be built by 1990 at a total program cost of $10 billion, nearly $30 million per plane—and that is a conservative estimate.

The new AV-8B is, like an older Harrier version now in service with the Marines, a single-engine, subsonic, light attack plane with a unique ability: It is able to take off straight up, no runway needed. But the Defense Department and the Navy never really wanted it. The flight of the new Harrier indicates that perhaps all the facts, all the studies, all the comparisons about cost and capabilities may be just part of the process of buying a weapon.

The Marines love the Harrier be-

The Marines' new Harrier AV-8B leaping into the air from a ramp

"It never entered our minds to keep the other services' mitts off."

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cause it can be parked just behind the front line, and on 72 feet square of flat terrain shoot off in minutes at the call of a company commander. Bombs can be on target in five to eight minutes. The Harrier can make six sorties in the time an ordinary fighter would make three, says Marine Colonel Hal Clark, program director of the AV-8B. In battle, minutes can be decisive. "If you don't find and hit the target right now, the chances of finding and getting it are greatly diminished," says Colonel Clark.

But despite Pentagon and Navy objections the program has been kept alive by Congress, which has continued to appropriate research and development money. Why do the Pentagon and Navy object to such a nice plane? Simple, they've got another airplane, the F-18, that they like better.

Pentagon analysts point out that the F-18, already in production by McDonnell Douglas, carries twice the payload of the Harrier in bombs and rockets and that the F-18 is faster and more competent against attacking aircraft. If it can't take off straight up, say the supporters of the F-18, it can be right offshore on a carrier or parked at a base some 30 minutes away or circling overhead able to come right down to support the Marines.

"I'm not convinced of the need for a one-mission airplane for one service," says an anti-Harrier Pentagon analyst. He cites the high cost of maintenance. "The AV-8B has certain systems that could fail so you'd need a cadre of highly skilled maintenance people at each site. Plus you need people back at the base for heavy repair or to tow the plane if it goes down."

As for its short takeoff capabilities, he scoffs: "I just don't think a 4,000-to-5,000-foot runway is as far from anywhere as the Marines say." Critics also bring up safety complaints against the old Harrier—39 out of 110 crashed during the past ten years.

But cutting through all the rhetoric, the most basic reason for opposition to the new Harrier is one that any family with two kids would readily understand: If little brother, the Marines (technically part of the Navy), got to buy the Harrier, then big brother, the Navy, figured it wouldn't get to buy as many F-18s. "I don't see how I can go before Congress and justify a buy of 1,366 F-18s when the Marines are getting about 350 AV-8Bs," explains Admiral Wesley McDonald, deputy chief of naval operations for air warfare.

The Navy's F-18 fighter and attack plane
The Navy's problem: "We couldn't afford both."

Why does an airplane for the Marines mean there will be fewer airplanes for the Navy? Because the F-18 program, currently envisioned at 1,366 planes, includes some 350 models for the Marines. Reducing the order by 350 planes would increase costs for the Navy.

The F-18 began in 1975 as a $12.9 billion program to build 800 planes, but that was revised in early 1979 to 1,366 planes. The Pentagon now figures that total average cost for the F-18, including spare parts and research and development, will be $28 million a plane—a $38 billion program. But because $5.7 billion has already been spent on F-18 R&D, reducing the program by taking out the 350 planes for the Marines wouldn't proportionately reduce the cost of the total F-18 program. It would just spread all the billions that have already been spent over fewer F-18s.

Defending the Harrier, McDonnell, which has 37 years' experience building military aircraft, claims the two planes are not in competition because their missions are different, and that the military needs them both. But Russell Murray II, former Assistant Secretary of Defense for Program Analysis & Evaluation, says that he's never seen a clearer case of systems analysts and military brass reaching such opposite conclusions. Murray, however, is thinking of considerations that seldom get into public weapons evaluations.

Murray thinks the Marines like the AV-8B because no one—especially the Air Force—would take it away. Other planes may be engaged elsewhere against MIGs but the little Harriers would be left right where the Marines want them, behind the front lines to support ground troops. Each Marine division has an accompanying Air Wing and they train and expect to fight together. In Vietnam and Korea, Marine planes were put under Air Force control, splitting up the air-ground team.

Russell Murray is sympathetic to the Marine Corps' worries. "They are sensitive to the subject of their continued existence," he says. "It's not all paranoia." But he feels: "A far better approach from the Marines' point of view would be to tie their future aircraft so closely to their ground forces that it would simply be unfeasible to transfer their control to the Air Force," says Murray. "And what better way could there be than to station those aircraft not back at some base with all the Air Force aircraft, but right out in the field, operating like so many helicopters?"

For the record, the Marines say Murray's thesis is all wet. Or at least partly wet. "It never entered into our minds that it was a basic requirement to keep the other services' mitts off our stuff," says Colonel Clark. After a pause, though, he adds: "Still, it's naive to think that it hasn't entered someone's mind. We should have thought of it. But the real requirements are getting on target with ground forces to achieve their objectives as quickly as possible."

The Navy's playing the whole thing cool. Navy men have praised the plane

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The knowledge business

as ideal—for the Marines. But somehow the AV-8B never got into the Navy's budget. But Congress on its own always put in the research money. Congress accepted the Marines' case. Then the unique V/STOL (for vertical, short take off and landing) capability fitted into the thinking of some, like Sen. Gary Hart (D–Colo.) who uses it to buttress his case for building smaller, cheaper aircraft carriers. "With V/STOL aircraft we could have carriers even smaller than the proposed 40,000-ton light carrier as supplements to the larger ships," says Hart. The very thought made admirals tremble.

What finally resolved the dispute the Marines' way? The election result and the apparent mandate for more defense spending. "We initially felt that with the number of F-18s considered, it was an economic consideration," Admiral McDonald says. "The separate attack plane was an affordability issue. We couldn't afford both. Now Congress has said affordability is not an issue."

Pecunia vincit omnia. Money conquers all. ■

Ed Gibbons' ambitious restructuring may be long overdue at Woolworth, but it makes sense just the same.

A new dawn at the five-and-dime?

By Maurice Barnfather

LIKE MANY RETAILING STOCKS, $7.2 billion (sales) Woolworth is in the doghouse these days selling at a wretched 5 times earnings. But Woolworth has earnings leverage that could easily make it worth a good deal more than that a year or two down the road. Forget 1981's first-quarter $6 million loss despite a 4% sales gain to $1.6 billion: There are good reasons now for expecting Woolworth to outperform its competitors at last.

Here's one. The $2 billion (sales) Woolco discount chain has 337 U.S. stores that generate 28% of group sales but are not making any money. Even a small margin improvement here would significantly alter Woolworth's bottom line. And that's going to happen. Woolco's women's clothing division (12% to 15% of its total) has had a crippling long-term contract with the Apparel Buyers Association. The middleman role the ABA filled effectively prevented Woolco from making any real profits on those sales, leaving Woolco with little more than rent money. That contract ended in 1980, however, and Woolco might find itself at least $12 million better off this year as it takes over the management of that department itself.

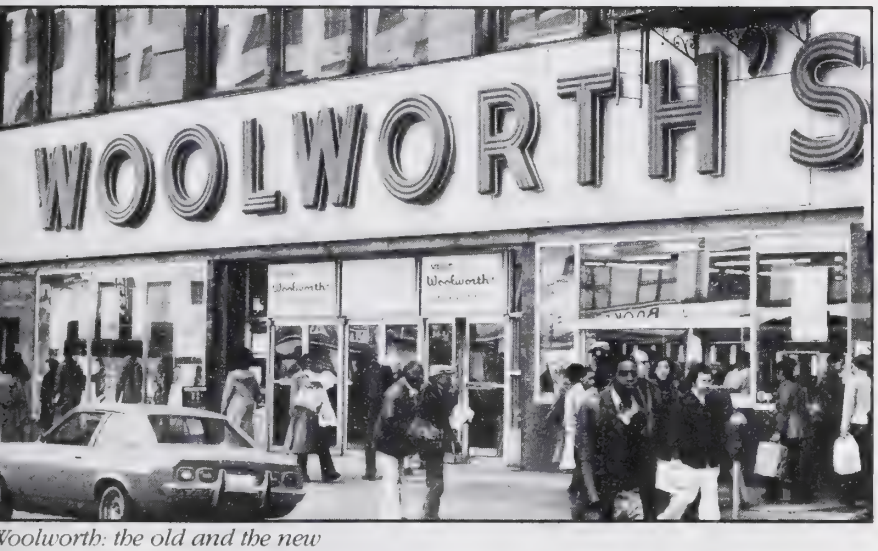
A more important reason that Woolworth's earnings should improve is that Chairman and CEO Edward F. Gibbons is now completely reexamining the product line of the Woolco and 1,342 traditional Woolworth outlets.

Taking a leaf from K mart's book, Gibbons has also been achieving greater sales per square foot of selling area by turning Woolworth increasingly into a clothes shop. Profit margins on clothes are considerably higher than on, say, household appliances. Explains Gibbons: "Everybody can carry the same General Electric toaster, and since it's easily distinguished in an ad, it becomes a battleground for price-cutting. Clothes made to your own specifications do not."

So by September, 22 Woolworths will expand selling space devoted to clothes, and 70 more will follow that route in the next three years. But it hasn't stopped there. In October 1979 Woolworth launched J. Brannam to sell cheap, brand-name clothes. Of its nearly 40 outlets, three-fourths are in old Woolco spaces. Says Gibbons: "It's amazing. Sales have gone through the roof. Unbelievable." Altogether, 13 former Woolco stores and one Woolworth's were converted last year to Brannam, and extra Woolworth's space has added 17 outlets to the $1 billion (sales) Kinney Shoe Group, which includes Foot Locker and Susie's Casuals.

All in all, over several years the traditional variety floor space in Woolco stores has been pared from an average of 115,000 square feet to one of about 85,000 square feet at no sacrifice in sales volume. "Costs were escalating

Woolworth CEO Ed Gibbons
Why pretend you're something you're not?



Woolworth: the old and the new

"A General Electric toaster becomes a battleground for price-cutting. Clothes made to your own specifications do not."

aster than sales," says Gibbons, "and a large portion of those costs was debt ervice to carry inventory." Here the struggle continues. Although Gibbons has begun to cut back the products offered in variety floor space, Woolworth's interest costs still rose 25%, o $145 million in 1980.

Does that mean Woolworth will ulimately abandon variety retailing? No, says Gibbons. "As my wife tells he children, 'there's another coming along, but that doesn't mean I love the wo of you less,' " he says smiling. Then he adds, straight-faced: "One of he biggest mistakes a merchant can make is pretending he's something he's not."

Ed Gibbons is the only man to head Woolworth who didn't rise through he ranks. After seven years at United Brands he joined in 1973 as financial vice president. In 1977 the now-61-year-old accountant heaved his ample frame into the chief executive's chair vacated when Lester Burcham took early retirement. The results so far have been encouraging. Return on equity has risen from an embarrassing 8.4% in 1977 to a somewhat healthier 12.8% last year. "Of all God's creatures I am the least patient," snaps the gravel-voiced Gibbons, chewing on a greenish-yellow cigar.

In his first year at the helm Gibbons introduced strategic planning and, three years later, the company's first in-house economist and corporate development department. "We now have a company dedicated to doing things a lot more sensibly," he says, glancing up the corridor at the late Frank Winfield Woolworth's grandiose green marble office, copied from the Empire Room in Napoleon's Palace at Compiègne.

Indeed the whole Woolworth Building in lower Manhattan, with its neo-Gothic spire and gargoyles bearing the likeness of Frank Woolworth himself, may once have been dubbed the Cathedral of Commerce, but it's now more like a monument to the past. Fortunately the Woolworth company no longer is.

"Everything fell into place last year," says Ed Gibbons, "but nobody noticed." ■

Chrysler Cordoba Corinthian Edition

The Chrysler Cordoba. So finely engineered it was rated superior to Oldsmobile Cutlass in overall quality of ride, styling, fits and finishes.

In an independent test, 50 mid-ecialty car owners compared e 1981 Chrysler Cordoba to the 81 Oldsmobile Cutlass upreme. They compared each r 39 different ways from the uality of their paint jobs to the uality of their seat seams. From e way they felt on the road to e way they looked standing ll. Out of the 39 categories, ordoba beat Cutlass 34 times.* ere are some reasons why.

solated transverse torsion-bars and a series of rubber isolator cushions give Cordoba its smooth ride.

When Cordoba and Cutlass ere compared for riding quali-es, the categories used for aluation were: smoothness, eadiness, quietness, seating mfort, and overall riding com-rt. Incredibly, Cordoba beat utlass in all five categories.

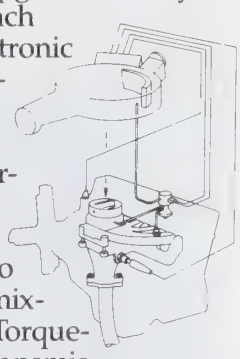
Cordoba's smoother, steadier de comes from its isolated trans-rse torsion-bars. Chrome alloy rsion-bars are mounted to the ont-wheel control arms and to e car structure, so they provide ringing action by twisting.

A torsion-bar twists and ntwists as wheels ride over umps. This way the torsion-bar shions road shocks before they e transmitted to the car body.

Cordoba a quiet r because hrysler engineer-g utilized computer esigned, thick, rubber cushions nd put them where suspension mponents meet the car's ody to reduce road noise and rshness before they reach ordoba's interior.

A silky smooth 5.2 liter V8 engine and amazing Torqueflite automatic transmission. Both helped rate Cordoba superior to Cutlass in pick-up and smoothness.**

Among the categories in evaluating Cordoba and Cutlass were pick-up and smoothness. Categories Cordoba won handily. Cordoba's classic 5.2 liter V8 engine makes it responsive, easy to maintain, but most importantly, an engine with an EPA rating of 17 est. mpg, 26 est. hwy.† Designed into each engine is an electronic fuel control computer that processes signals from seven different sensors and instantly adjusts your air-fuel ratio to an optimum mixture. Cordoba's Torqueflite automatic transmission means better fuel economy because at highway speeds the torque converter locks in place. With the converter locked the engine runs slower to maintain the car's speed so less fuel is used.



Chrysler's painstaking attention to detail helped rate Cordoba superior to Cutlass in quality of fits and finishes.

During the evaluation between Cordoba and Cutlass for styling, conveniences, and quality of fits and finishes, Cordoba was picked first in 25 out of 27 categories. For example, Cordoba's front, side, and rear styling was rated superior. Cordoba's doors, exterior chrome, and moldings were picked as fitting better, for being straighter, and for having no gaps. Its hood, doors, and trunk were judged to fit better because their seams were straighter and more even.

All this is the result of Chrysler's advanced planning in design and engineering. To illustrate this, Cordoba's paint job was chosen superior because its color was even throughout and the finish was smoother. To make Cordoba's finish long lasting, a seven-step dip-and-spray treatment to guard against corrosion is applied before the car receives the first of its four coats of paint.

So thorough is Chrysler's attention to quality of styling, fits, finishes and convenience, Cordoba was selected by 34 out of the 50 judges as having superior quality overall.

We'd like you to compare the Chrysler Cordoba and see why it won easily over Cutlass Supreme.

The 1981 Chrysler Cordoba, a car you will judge superior in overall quality.

Cordoba LS model prices start at $7,765.††

$7,765. That's what the sporty Cordoba costs and here's what's standard on the Cordoba LS. A 3.7 liter 6-cylinder engine; automatic transmission, power steering, front power disc brakes, tinted glass, and many other standard features that usually are available only as options.

CHRYSLER
Plymouth

The New Chrysler Corporation

esults reported are based on responses preferring Cordoba over Cutlass 27 out of 50 to 46 out of 50 participants depending on the category. **Optional at extra cost se EPA est.MPG for comparison. Actual mileage may vary depending on speed, trip length and weather. Actual highway mileage probably lower. Calif. ests. lower Base sticker price of Cordoba LS (not shown) excluding taxes and destination charges. Optional Corinthian Edition Package shown not available on Cordoba LS

While S&Ls, banks and their Washington friends fiddle over deregulation, laissez-faire banking marches on.

It didn't start with the money funds

By William Baldwin

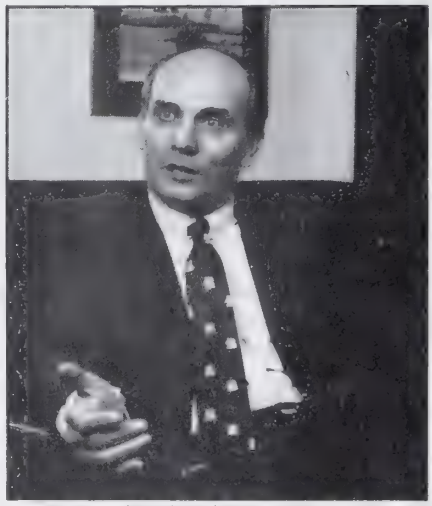
"I'M ON YOUR SIDE philosophically," Senator Jake Garn (R–Utah) tells a phalanx of bank and thrift industry representatives lined up before his Senate Banking Committee to complain about money market funds. "I want to help."

Competition from the unregulated money funds is unfair, says Garn, but curbing them now won't fly in Congress or do much good. What do you want? he asks. Immediate repeal of Regulation Q interest-rate ceilings so you can compete with the funds, or the agonizingly slow five-year phase-out proposed by the Depository Institutions Deregulation Committee? The industry people are flustered. Big banks but not small ones want quick repeal of Reg Q. Probably nothing will save the savings and loan associations from another disastrous year.

Garn, unlike his predecessor as committee chairman, William Proxmire, is a genuine friend of the banking industry. He would like to dismantle all sorts of regulatory nuisances like truth-in-lending and antiredlining laws, and he would like to protect small-town banking from a free-for-all of interstate branching

But a problem, Garn reflects, is that regulations intended to protect banking institutions often backfire. "It's too bad that the thrift institutions fought to maintain Reg Q and the differential [a ¼-point advantage over commercial banks] all those years," says Garn. "If we had started the phase-out a number of years ago they would be more than competitive with money market funds." And "there is no doubt that that would have precipitated major changes in the asset side." In other words, the thrifts wouldn't have been so cavalier about loading up on fixed-rate mortgages if there had been no protected pool of cheap deposits.

Savings and loan men will protest that nobody could have foreseen today's interest rates or the breakdown of barriers among financial institutions. But the world of competitive rates didn't start with money market funds. For two decades, free-market forces have been poking holes in the protective blanket Congress provided for banks via the limits on interest payments.



Senate Banking's Jake Garn (R–Utah)
Is even a friend able to help?

It all started in the 1960s, when Citicorp invented the negotiable certificate of deposit, enabling big depositors to get market rates on short-term money. Soon banks figured out a still better way to circumvent the legal prohibition on interest on demand deposits: Corporate customers who had cash above that needed to compensate the bank for services entered repurchase agreements, buying securities from the bank and agreeing to sell them back with interest. On paper the repo is not a demand deposit, but it's hard to tell the difference.

Consumers soon were cut in on the loopholes, too. In 1972, a small savings bank in Massachussetts decided it could pay interest on checking accounts. You call the account a "savings account" and you call the checks "negotiable orders of withdrawal." It sounds silly but regulators didn't catch on fast enough to put a stop to it. With a reluctant Congress yielding a step at a time, NOWs spread to all of New England by 1976 and the rest of the country this year.

Last month, the Bank of California came up with a scheme to pay 17% and up on transaction accounts over $10,000 by saying that the money was going into a London branch. It took in some $4.5 million in one week before the Fed ordered it on May 8 to stop. BankCal vows to return via another legal route.

On May 14, even as Garn was commiserating with thrift officials in Washington, County Federal Savings & Loan on Long Island started paying 15% on almost fully liquid deposits of $1,000 and up. The depositor is told he's buying into a pool of government securities and that the bank will buy him out when he needs the money. It seems suicidal. The $1 billion (assets) County Federal lost $9 million in the second half of last year and, says Vice President Richard B. Miller, may see a fourth of its $350 million in passbook deposits shift to the repos. But thanks to competition, he says, "You would have lost that money no matter what."

"If we had immediate deregulation on interest ceilings for the S&Ls we would only accelerate their problems," insists Garn. But what remains beyond some legal rituals?

As Regulation Q vanishes from the real world, the concomitant revolution in banking—interstate branching—builds up steam. Banks like Citicorp and Manufacturers Hanover are devising ways to take deposits across state lines. The money funds, for that matter, are little more than the deposit-gathering arm of the money-center banks. Here, Garn stands by the forces of tradition; he's talking at most of relaxing McFadden in favor of regional interstate branching. "I don't want to see 12 or 15 large banks have the dominant control over the financial services industry," he says. The revolution in banking will be addressed in a "comprehensive" bill that won't become law before next year. But if he moves too slowly the issue may be moot by then. ■

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The boss of little Four-Phase got so wrapped up in watching IBM, he forgot to check what his customers needed.

"In a telephone booth with an elephant"

By Kathleen K. Wiegner

ASK LEE BOYSEL, Four-Phase Systems Inc.'s normally voluble founder and president, why his company's earnings dropped like a rock last year, and he responds with a single name—International Business Machines. Boysel's company shares the computer business with IBM the way, as he puts it, "you share a telephone booth with an elephant." But the moral in Boysel's experience could apply to any entrepreneur who must find a niche in an industry dominated by a giant.

Four-Phase, started in 1969 by former IBM computer systems engineer Boysel, pioneered distributed data processing—the ability of small computers in widely separate locations to exchange data with a large mainframe computer at another, distant location. All was golden while it and other small distributed processing outfits had a place to themselves in the vast computer field. Between 1975 and 1979, Four-Phase's revenues grew at an average annual rate of 37%, while net income mushroomed at an annual rate of 58%. But last year revenues grew only 10%, to $197 million, and earnings fell 67%, from $16.7 million to $5.5 million.

"When IBM 'blessed' our business by announcing they were getting in two years ago, we were delighted," says Boysel. "First-day orders for their 8100 terminal were $5 billion! We figured we could knock off a little of that, which would be great business for a company our size." Boysel's strategy for Four-Phase from the beginning had been to "skim the market," to target large corporations and heavy computer users like hospitals and the federal government. When IBM came into distributed data processing, Boysel spent liberally to advertise that Four-Phase was an alternative to the IBM 8100. Then he

Lee Boysel, Four-Phase Systems founder and president
"When IBM 'blessed' our business by announcing they were getting in, we were delighted."

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waited for some of that $5 billion to drift his way.

But the orders never came, not because IBM was selling a terrific product but because Boysel had unknowingly wrapped himself around a bomb. Customers took a second look at the 8100 and decided they didn't want it *or* Boysel's boxes. "We were right on top of IBM when it blew up," says Boysel ruefully. "We got hit with the shrapnel."

Boysel's customers told him that they wanted another computer to sit between the terminal and the mainframe, an intermediate machine that would store and process some of the frequently used information previously kept in their big machines. And it had to be compatible with IBM's software. "We got so tangled up with IBM we didn't know what was wrong until customers came to us and said the 8100 wasn't the total solution and neither were we," says Boysel.

Some customers quickly put together such a solution using IBM's small, popular 4300 series computer. But Boysel was several years away from developing the missing piece. Luckily the piece he needed was only about five miles down the road from Four-Phase's Cupertino, Calif. headquarters. Philips N.V.—Four-Phase's distributor in Europe—owned a small minicomputer-maker named Two Pi, which made a computer like IBM's 4300. Philips was looking for a buyer for Two Pi, and Boysel quickly snatched it up—for stock and $2.5 million in cash. It was a good deal. "Boysel got Two Pi for less than $10 million," says analyst Warren Beck of Los Angeles brokerage firm Crowell, Weedon, "but it would have cost him $20 million and another two to three years to develop that product on his own." Now Four-Phase, like IBM, is offering customers what they wanted in the first place.

Boysel had other problems last year but they had more to do with his own management than with IBM. After a decade of rapid growth, the company's product line had run out of steam, with not enough new products to revive it.

Boysel's customers were no longer neophytes in distributed data processing but savvy users with a need for more power and capability than Four-Phase was offering. Some buyers were beginning to tear out Four-Phase equipment and replace it with competing items. One new Four-Phase product—a more powerful computer system called "Sprint"—was behind schedule because, critics claim, Boysel kept changing his mind about what it should do. Salesmen grew unhappy because they had nothing new to sell, and several senior marketing managers quit.

But Boysel, 42, who bears some resemblance to comedian Jonathan Winters, has been moving as quickly to repair this damage as he did about IBM. Research and development spending, particularly for a new-generation computer system, was increased 40%, to $16 million last year. A new word processing package has been well received by office customers.

For the first quarter of this year, Four-Phase's net was up 57% from the previous year, on a 13.7% jump in revenues. And none of that increase was due to Two Pi products, which will not begin contributing to earnings until later this year. Four-Phase's earnings should be up to around $9 million, $1.70 a share, by year-end, and estimates are that in 1982 Four-Phase's earnings will be above record

Boysel's customers told him they wanted an intermediate machine to store frequently used information. "We got so tangled up with IBM we didn't know what was wrong until customers came to us and said the 8100 wasn't the total solution and neither were we."

1979 levels. The stock, which had dipped as low as 19, has recently climbed back to 40. That's a heady 23 times anticipated 1981 earnings—possibly a shaky premium in this market *(see p. 187)*.

But market timing aside, Boysel is confident of his fundamentals these days. He has no intention of abandoning his market strategy. Unlike another distributed processing leader, Datapoint Corp.—which keeps out of IBM's way by going after smaller companies that use fewer computers—Boysel intends to keep Four-Phase nibbling away at IBM's breadbasket: the big, computer-using institutions. As Boysel, a University of Michigan-educated engineer with a wry sense of humor, explains it, "We want to get so close to IBM that they can't shoot us without shooting themselves in the foot."

Boysel realizes that a small company cannot afford to ignore the giant in its field. But he has learned a lesson: to keep a closer eye on what his customers want, and not to count on a piggyback ride from his mammoth competitor. ■

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MINOLTA

The folks who brought you commodity futures, where you can lose your shirt, want to bring you a new game.

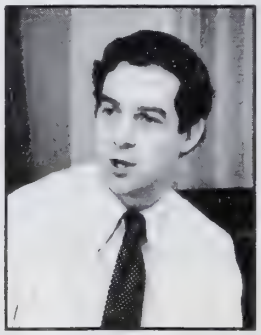
Optional misery

By Michael Kolbenschlag

If every stock, as one wag put it, is a combination of an investment and a lottery ticket, and a futures contract is the lottery ticket without the investment consideration, what then is an option on a futures contract? Investors and the financial markets may soon find out. The exchanges and their regulators, seeking to attract a wider public with a trading vehicle less risky than futures, are rushing to introduce options in commodity and financial futures.

The Chicago Board of Trade and other commodity exchanges are pushing their regulator, the Commodity Futures Trading Commission, to approve a program in options on futures contracts in gold, sugar and the pass-through mortgage certificates of the Government National Mortgage Association, which are used to hedge long-term interest rates. The Chicago Board Options Exchange—which specializes in securities options—already has approval from its regulator, the Securities & Exchange Commission, to trade options on GNMAs. But the Board of Trade, charging that the SEC lacks jurisdiction in futures, is suing to prevent the CBOE from going ahead. Meanwhile, the SEC is considering requests for options on Treasury bonds and notes from the CBOE. The New York Futures Exchange and the American Stock Exchange are also interested in options.

The exchanges and their broker members envision increased business and commissions from larger numbers of the public and from commercial bankers, mortgage bankers and other financial professionals who use futures to hedge interest rates but who have been frightened by actual and potential losses. Vice President Earl Baldwin of Security Pacific Corp.'s mortgage banking subsidiary reckons that fewer than 40% of all mortgage bankers have used GNMA futures contracts to hedge mortgage commitments, and that few use them regularly. "The underlying nature of the contract is obligatory and you may have to eat it big with a futures contract," says Baldwin. "But with options, you pay a premium to be able to skate away from a bad deal."



Board of Trade's Wilmouth (left) *and CFTC's Stone*
More business versus more safeguards.

Options are theoretically less risky than futures because you can lose only what you put up—anywhere from 2% to 10% of the futures contract's value. In the GNMA options envisioned for the CBOE or for the Board of Trade, the options premium—and the potential loss—could be $2,500.

It is possible to have less at risk in futures, where a small margin swings a bet on the price of huge volumes of goods or financial instruments. But the great danger in futures is that you can be locked in during a period of rapid adverse price moves and lose more than you bargained for. At the beginning of May, for example—when the Federal Reserve raised the discount rate—trading in Treasury bill futures on the International Monetary Market in Chicago was all but impossible. For three days T-bill futures opened, fell the 60-basis-point exchange limit and closed again. A T-bill futures holder would have lost $4,500 on each contract for which he had put up a margin of $2,000 or so.

Such risks are the reason brokerage houses screen customers to see if they are suitable—in net worth and free capital resources—to trade in commodity futures. CFTC Chairman James Stone wants to make sure that suitability screening and other customer safeguards will be imposed in options trading. But the CFTC's three other commissioners want to approve the options program and CBT President Robert K. Wilmouth is impatient. "If I have anything to say about it," says Wilmouth, referring to Stone's proposed safeguards, "they won't be in there at all."

The rush to introduce options worries some futures professionals. Richard Bergers, who manages commodity accounts at Drexel Burnham Lambert's Los Angeles office, concedes that options will "protect fools from losing big." But he doubts the wisdom of attracting large numbers of the public to the markets. So does Gerson Levin, a former president of the Commodity Club of Los Angeles, who cites the industry rule of thumb about the odds in futures. "They build attractive risk-reward profiles on options, but the facts are that 4 times out of 5 the investor will lose his money. Who needs this?"

It's a reasonable question, given commodity options' previous incarnations. In 1978 the CFTC banned options trading because regulations were incapable of preventing abuses by traders like Harold Goldstein and Alan Abrahams, alias Jimmy Carr. In 1973 Goldstein was sentenced for mail fraud in connection with selling phony options and five years later Carr was convicted of contempt of court for ignoring a federal judge's order to stop selling options.

In the 1930s, agricultural interests persuaded Congress to pass laws against options trading in wheat, soybeans and corn because options trading made markets chaotic.

As agricultural markets were unstable then, so financial markets are feverish and wracked by inflation today. Productive investments would cure the fever but—a sign of the times—exchanges, brokers and even regulatory bodies are pushing not a cure but the palliative of options. ■

Forbes Special Advertising Supplement

MINNESOTA

A State That Works

M

MINNESOTA

A recent survey by the Fantus Corporation, a leading corporate consulting firm, placed Minnesota first in a nationwide quality of life survey.

Minnesotans accept the accolade. They seem proud of their accomplishments because Minnesota is "a state that works." This was the description in a TIME magazine cover story that said: "If the American good life has anywhere survived in some intelligent equilibrium, it may be in Minnesota .... a state where a residual American secret seems to operate. Some of America's most agreeable qualities are evident here: courtesy and fairness, honesty, a capacity for innovation, hard work, intellectual adventure and responsibility. If it's all here, and Minnesotans think it is, there have to be some reasons for it."

The Land

To begin with, there's the land. Minnesota is a big state, the 12th largest, with 84,068 square miles. The population is about 4 million, 20th in the nation. The basic geological features include the Great Lakes, formed 11,000 years ago when the last glacier retreated. The westernmost point of these inland seas is on Lake Superior, where the port city of Duluth is located.

The glacier also formed the fertile farmlands of southern Minnesota, pushing the topsoil before it. And it scoured the earth in northern Minnesota to uncover a wealth of valuable minerals. A final glacial bequest was the melting of the ice to form not only the Great Lakes but also the Mississippi, the Red River of the North, more than 15,000 lakes and 25,000 miles of streams and rivers. They provide a vital resource for both agriculture and business, as well as more miles of recreational shoreline than the states of California and Oregon combined.

The People

The earliest permanent settlers in Minnesota were Yankee traders from New England. They were followed by great waves of immigration from Europe. First came the Germans—after the Revolution of 1848—then the Scandinavians and Irish, lured by the Homestead Act of 1862 and James J. Hill's need of their labor to help lay the tracks and farm the land along the right-of-way of his great railroad empire. Smaller groups of Poles, Slavs, Balts, Jews and Blacks followed. And though the Scandinavian strain predominates, all the new settlers brougl with them an almost religious belief i education and civic responsibility.

Education

Few states exceed the quality and variety of educational experience that Minnesota offers. Eighty-five per cent of the state's students graduate high school—more than 90% if completion of a high school education equivalent is taken into account.

Nearly 50% of high school graduate pursue some form of higher educatio Minnesota has seven 4-year colleges, 18 public community colleges, five pri vate junior colleges and 24 private 4-year colleges.

The University of Minnesota is the largest in the state and seventh large in the country, with four state campu and 12 experimental and branch stations. In 1965-75, the "U" was 11th among the nation's universities in conferring doctorates.

The president of the University of Minnesota is the highest paid public official in the state. The university's Institute of Technology, School of Technology and Agricultural Extensio are among the departments nationall

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recognized for excellence. The U has helped to produce seven Nobel prize winners and to achieve breakthroughs in the development of Salk vaccine, open heart surgery and cholesterol research. Research in blight resistant northern food crops and the conversio of taconite to iron ore have not only been beneficial economy, but of truly universal significance.

Minnesota's 33 vocational-technical schools have an enrollment of nearly 30,000. Each year, they turn out more than 1,000 graduates who find jobs in the state's electronics industry alone. Expenditures for vocational education are third highest in the country, and Minnesota ranks fourth in per capita state expenditures for all forms of education.

Cultural Life

Over the past few years, private donors have contributed some $70 mil lion to arts organizations, and Minneapolis-St. Paul has more theater goers per capita than New York City.

In November of 1979, 63 theatrical productions were ready for the winter season in the metropolitan area, not in cluding performances by local colleges universities or high schools. The Tyro Guthrie Theater in Minneapolis plays an average of 9,200 people weekly du ing its annual 39 weeks run. Because the Twin Cities supports six equity theaters, aspiring players from around the country come here to begin their careers. And, of course, the companie in the metropolitan area have helped spawn theater groups in other communities as well as straw hat compani throughout resort areas of the state.

Minnesotans support symphony orchestras in the Twin Cities, Rocheste and Duluth. The Minnesota Orchestra directed by Neville Marriner, is one of the country's major symphonies and performs in the acoustically superb Orchestra Hall in downtown Minneap olis and O'Shaughnessy Auditorium in St. Paul. The St. Paul Chamber Orchestra, under Pinchas Zukerman, is another nationally celebrated classical group. Each year the Metropolitan Opera makes one of its few stops outside New York City in the Twin Cities

Minnesota is rich in visual arts as well. Tweed Gallery houses an important permanent art collection in Dulut In St. Paul, the newest, most exciting experimental art form is found at the Science Museum of Minnesota and th William L. McKnight-3M Omnitheater Walker Art Center in Minneapolis hac

distinction of presenting the initial
asso Legacy exhibition. Just a mile
ay from the Walker, the Minneapolis
titute of Arts houses what is perhaps
finest Rembrandt in the country,
ıcretia," as well as a wealth of old
sters, Chinese jades, and Japanese
nts, Flemish tapestries and bronzes.

tdoors and Recreation
nting and Fishing

top a Minnesotan on the street and
a good bet that he or she will be car-
ng a Minnesota fishing license. One
hree does. Minnesota ranks first in
l hunting licenses issued and second
otal fishing licenses based on per-
tage of population. Anglers manage
atch some 25 million fish annually in
nnesota. Nearly 20 fish are caught for
ry license issued. More than six per-
t of the state's surface is covered by
er, a greater area than any other
e in the country. More than 95 per-
t of Minnesotans live within five
es of recreational waters.
he state's deer population has been
mated by experts at more than
,000. Hunter's success ratios have
as high as 44 percent.
n the fall, the finest duck hunting in
United States can be found in Min-
ota. About 25 percent of all the birds

The Vikings repel boarders.

taken along the 14 state Mississippi fly-
way are taken in Minnesota. That's one
million birds more than the entire yield
of the Atlantic flyway.

Major League Sports

Spectator sports have become a popular year-round activity for Minnesotans. University of Minnesota teams have long been stalwarts in the Big Ten Conference. In 1961, they were joined by major league professional sports. The Minnesota baseball Twins and Minnesota football Vikings will soon be competing in a $55 million domed stadium in downtown Minneapolis. The Minnesota Kicks play soccer at Metropolitan Stadium, next door to the Metropolitan Sports Center, home of the North Stars of the National Hockey League.

Individual Sports—Year-round Panorama

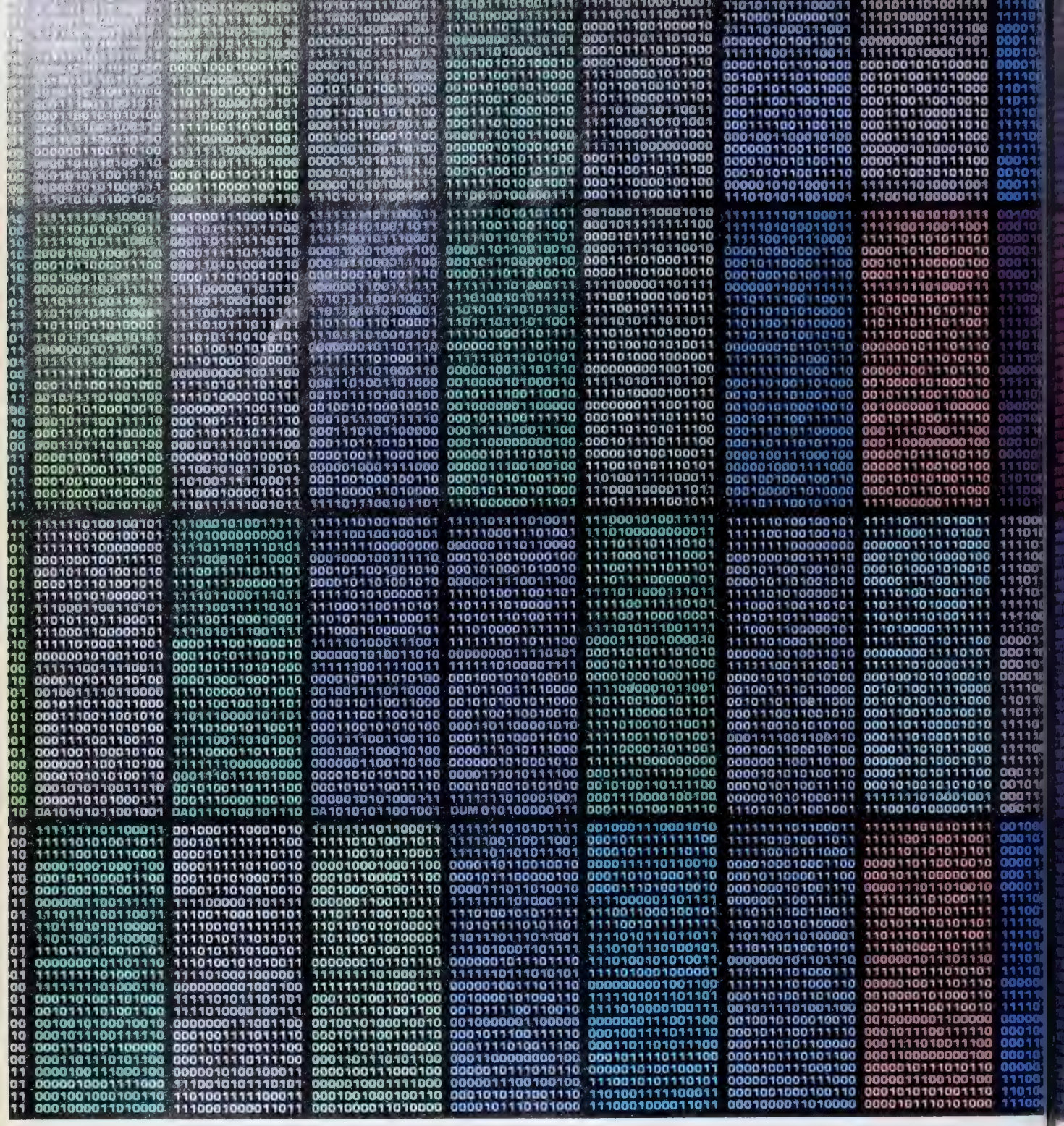
Everybody in Minnesota seems to be into something. The jogging craze has created a municipal crisis of sorts in the Twin Cities as jogging, roller skaters, and walkers have staged a friendly competition for use of municipal parkways.

Minnesotans own 565,000 boats to fish, paddle, row, sail, motor, waterski, and loaf in. Only Michigan has more. There's nearly one snowmobile for every ten Minnesotans. And Minnesotans are crazy over horses, too. Except for Los Angeles County in California, Hennepin County, where Minneapolis is located, has more horses than any other county in the country.

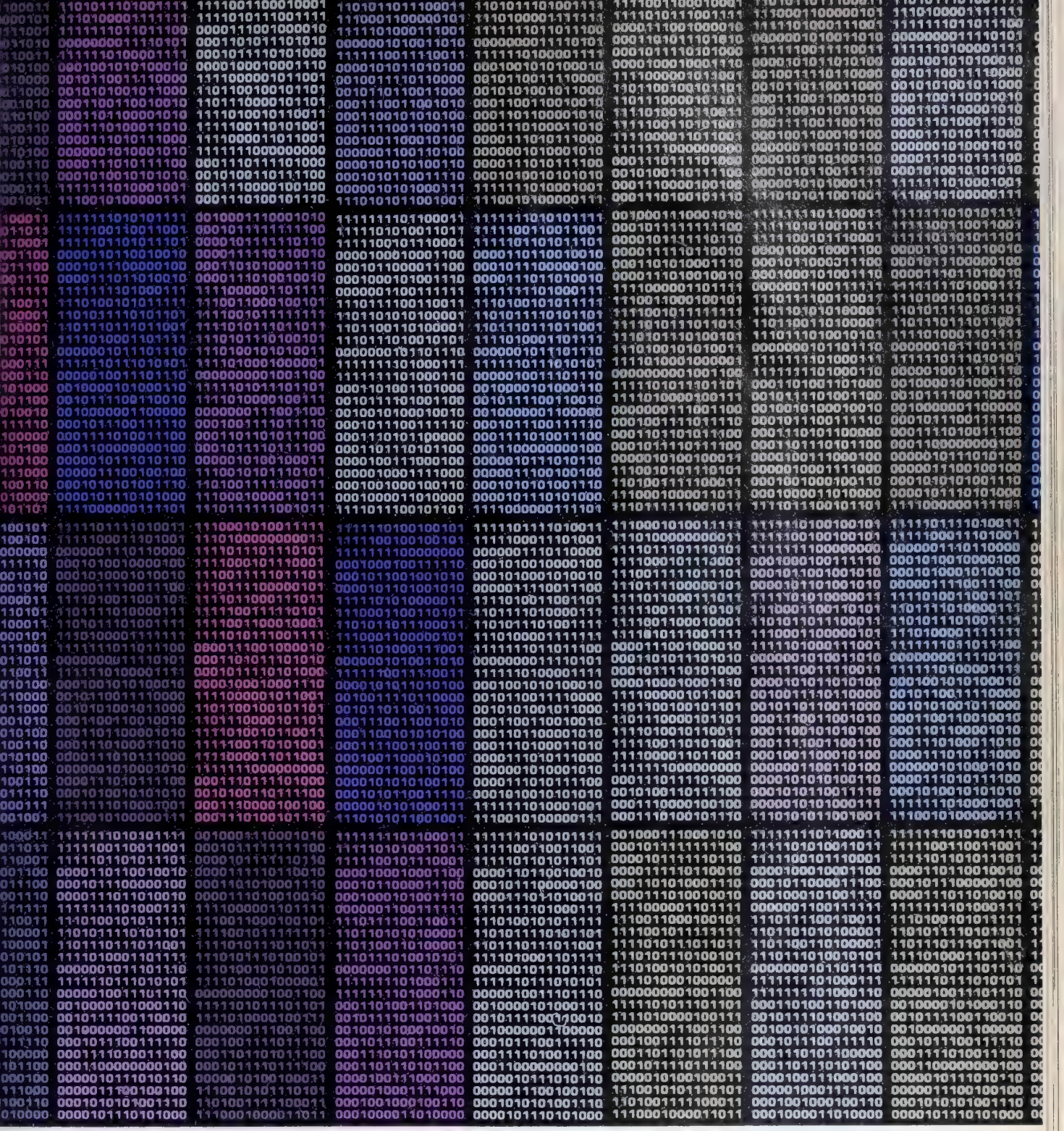
Tourism

Tourism is big business in Minnesota, generating close to $2 billion in income for the state. Minnesota has nearly

Minnesota Orchestra: Symphony of the first rank.



These are the first four notes of Beethoven's Fifth Symphony.



ou've never seen musical notes like these efore, because they've never been record-d like this before. The 3M Digital Mastering ystem actually uses a computer to ecord every nuance of the music. So when eproduced, every note can be heard ith uncanny crispness and clarity.

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2,000 resorts. Surrounded by nature's glory, Minnesotans are outdoor people. At least 35 percent of them customarily vacation within their own state, while attracting three million more out-of-state visitors annually. In addition to being able to select from resorts for every pocketbook, tourists can choose from 21,000 privately operated campsites. There are 8,500 campsites in state and national forests on four million acres of recreational park and campgrounds, two million acres of water, 32 downhill ski areas, and 8,000 miles of marked and groomed snowmobile trails.

Minnesota ranks eighth in the nation in number of state parks in recreational areas, and well above the national average in total public recreational acres and state expenditures on natural resources.

Health and Medicine

According to life insurance studies, Minnesotans have the longest life expectancies in the country. Even getting into the world is safer in Minnesota, for it has one of the lowest infant mortality rates of any state. Minnesota is well above average in doctors and dentists per capita. In a Midwest Research Institute study, Minnesota was ranked number one of all the 50 states in health and welfare.

The Mayo Clinic in Rochester has more than 750 full-time staff physicians of every known medical specialty. People come from all over the world to receive treatment at the Mayo Clinic, which is synonymous with the ultimate in medical care.

Business and Industry

Minnesotans have to be forgiven for a Texas size boast if they're proud of pointing out that, according to a 1979 NEW YORK TIMES article, there are more millionaires per capita in Minnesota than in Texas.

Minnesota has been fortunate economically. Part of the state's prosperity has been an accident of geography. There are rich mineral resources in the north and fertile farmlands in the south. The state's principal economic activities are fast growing and well positioned to take advantage of the economic trends of the 1980s. Diversification has enabled Minnesota to weather most economic storms without serious damage because no single industry exclusively dominates in the state.

Minnesota is thought of as a high service, high tax state. The high tax image may be somewhat exaggerated, for though personal income taxes are high (but remember those millionaires), the state ranks 8th in overall taxes and 23rd in real estate taxes annually.

Minnesotans tend to tax themselves as much as the government taxes them. Forty-five of the largest companies in the Twin Cities' area contribute five percent of their profits before taxes to social undertakings. Annual reports abound with sections on corporate social responsibility.

Minnesota's smaller cities have also been pioneers in business development. The first local business-industrial development corporation was established in Albert Lea. The state now has more than 200 development corporations, leading the nation in the creation of new job opportunities through such organizations.

The Minnesota work force is stable and productive. Three out of four Minnesotans own their own homes—well above the national average. Minnesota church membership is 70 percent, again, way above the national average. Unemployment has historically run below the national figure.

Manufacturing

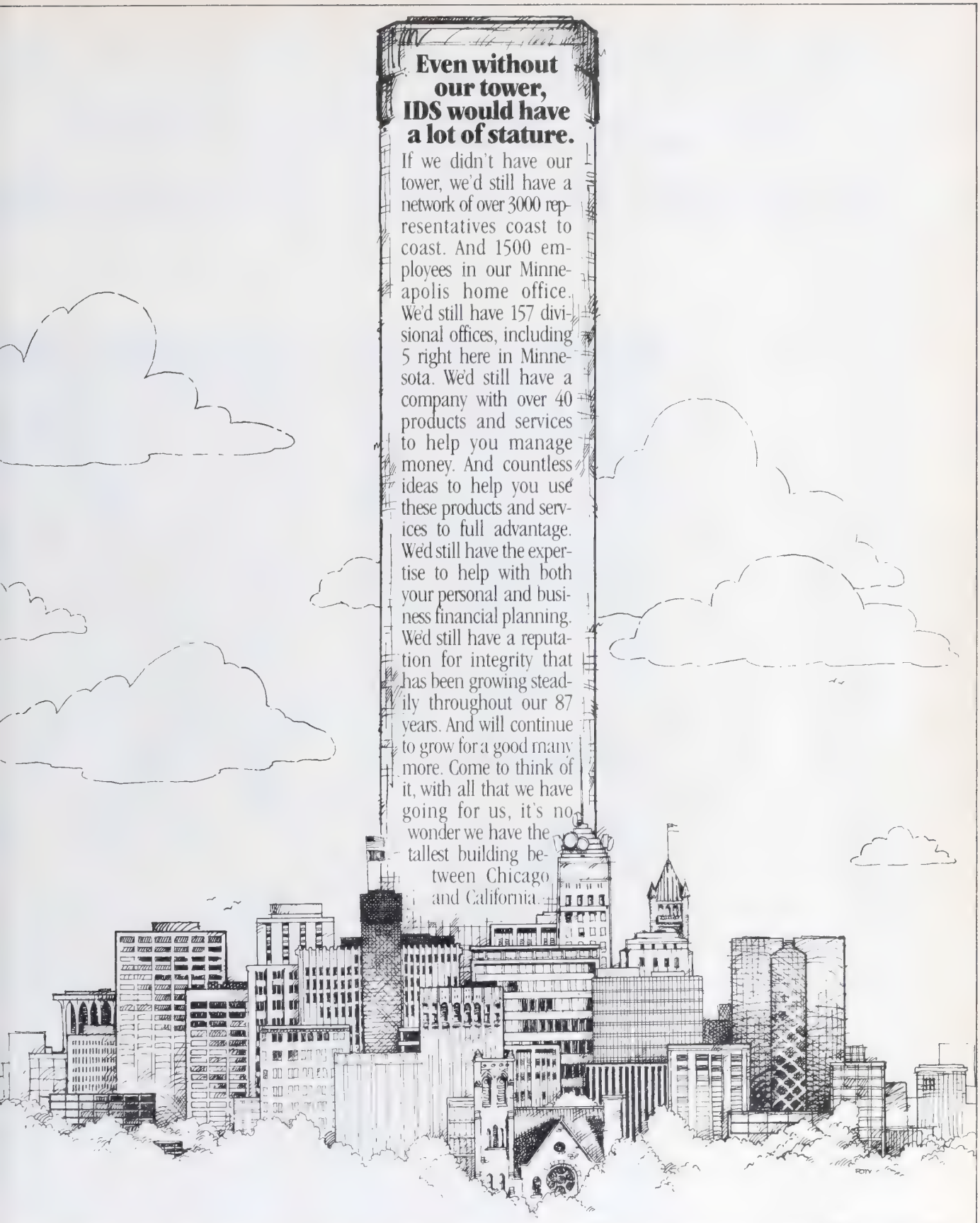
Since 1950, Minnesota has generated more income from manufacturing than from farming. Over 300,000 people are employed by manufacturing firms in Minnesota. Minnesota's electronic equipment, plastics, paper, wearing apparel, coated products, control apparatus, skiis, snowmobiles, lawn mowers, farm machinery and heavy industrial machines are sold throughout the world. Between 1972 and 1976, the last date for which figures are available, the state showed the second highest gain in the value of shipments.

In export trade manufactured goods make up nearly $3 billion. The state ranks 16th in manufactured exports. Pe capita value of manufactured exports exceeded the national average. Betwee 1969 and 1976, Minnesota manufacture exports grew by 219 percent, again exceeding the national average.

Agriculture

Minnesota agriculture employs nearl 30 percent of the state's work force, both directly on the farm and in agriculture related activities. Even with economic diversification it is the state's largest industry.

Minnesota is number one nationally



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in sweet corn and turkeys; number two in oats, sunflowers and American cheese; third in flax seed and pig crop and fourth in barley, rye, soybeans, milk cows, hogs and milk.

Minnesota is number two in sugar beets, butter, non-fat dry milk and total cheese varieties.

Minnesota has long recognized the opportunity for developing world markets for its agricultural products. Since the mid 1960s, Minnesota cooperative trade missions have combed the world to search out trade opportunities.

In 1970, Minnesota's total agriculture export sales were less than $275 million, representing one-eighth of the state's farm production. In 1980, more than one-third of Minnesota's farm products, worth $2 billion, were exported.

Though Minnesota has long been a leading farm state, growth has accelerated in recent years. In 1970, Minnesota's total crop production was estimated at nearly 28 million tons of field harvested food and fiber. By the end of the decade, Minnesota farmers harvested nearly 58 million tons of field crops, more than double the volume of 1970.

"To get an idea of Minnesota's agricultural productivity," the state's Commissioner of Agriculture said, "note that though the state ranks 15th in agricultural land resources, and our 30.3 million acres in farms still represents less than three percent of the national total, the land is some of the most productive in the world. Minnesota annually ranks as high as second and no less than third, behind only Iowa and Illinois, in total field crop tonnage. Minnesota has an unmeasured capacity for increased agricultural production to meet any existing or predictable worldwide demand."

Mining and Forestry

When the high grade ore of Minnesota's Iron Range played out after nearly a century of mining, more than a billion dollars was invested in revitalizing the industry to develop taconite as a source of iron ore.

In 1980, taconite mined in Minnesota produced 71% of the nation's iron ore needs. In addition to the wealth of iron ore, large deposits of copper and nickel ore remain untapped in the northeastern portion of the state.

Minnesota's annual harvest and secondary manufacture of forest products is valued at $1.5 billion. Over 40% of the state is forested. There's enoug timber to cover 335,000 acres with a r an inch thick, or cordwood to constru a 2 x 4 tower of timber which would reach 126,000 miles past the moon.

Media Associates, Inc

Transportation

Two of the world's great seaways, t Great Lakes and the Mississippi River give the state an enormous competitiv advantage in international markets. Duluth, on Lake Superior, is Minnesota's world port and one of the ten busiest in the country. Each year, Min neapolis and St. Paul handle almost 15 million tons of freight on the Mississippi via river barge.

Because of an ideal location along t great circle route, flying time to Lond from the Twin Cities International Air port is nearly as fast as it is from New York. Two major airlines, Northwest Orient and Republic, are headquarter here. It's possible to have breakfast in the Twin Cities and lunch in New Yor —and to be back home in time for dinner. Minnesota is a hub of the air and freight lines.

High Technology

The roster of major technology firm headquartered in Minnesota reads lik blue ribbon list of some of the largest and best known companies in the world. Three of them, 3M, Honeywel and Control Data are FORBES 500 co panies. Control Data started in Minneapolis just 25 years ago with only $600,000 in assets and now is the 159t largest company in the country, employing over 57,000 people worldwide with sales over $2 billion. Honeywell, the 79th largest company, has sales of over $4 billion and 3M, the 51st larges company, has sales of nearly $5.5 billion.

Other well-known high technology names include Cray Research, Sperry Univac, Data Card and CPT Corporation. The area's total of over 170 high technology companies provide emplo ment for nearly 100,000 Minnesotans.

Among all United States metropolit areas, the Minneapolis-St. Paul area ranks eighth in the percentage of scie tists per 1,000 population (6.7 percent) In the highly technical field of compu ers, Minnesota ranks fourth in value

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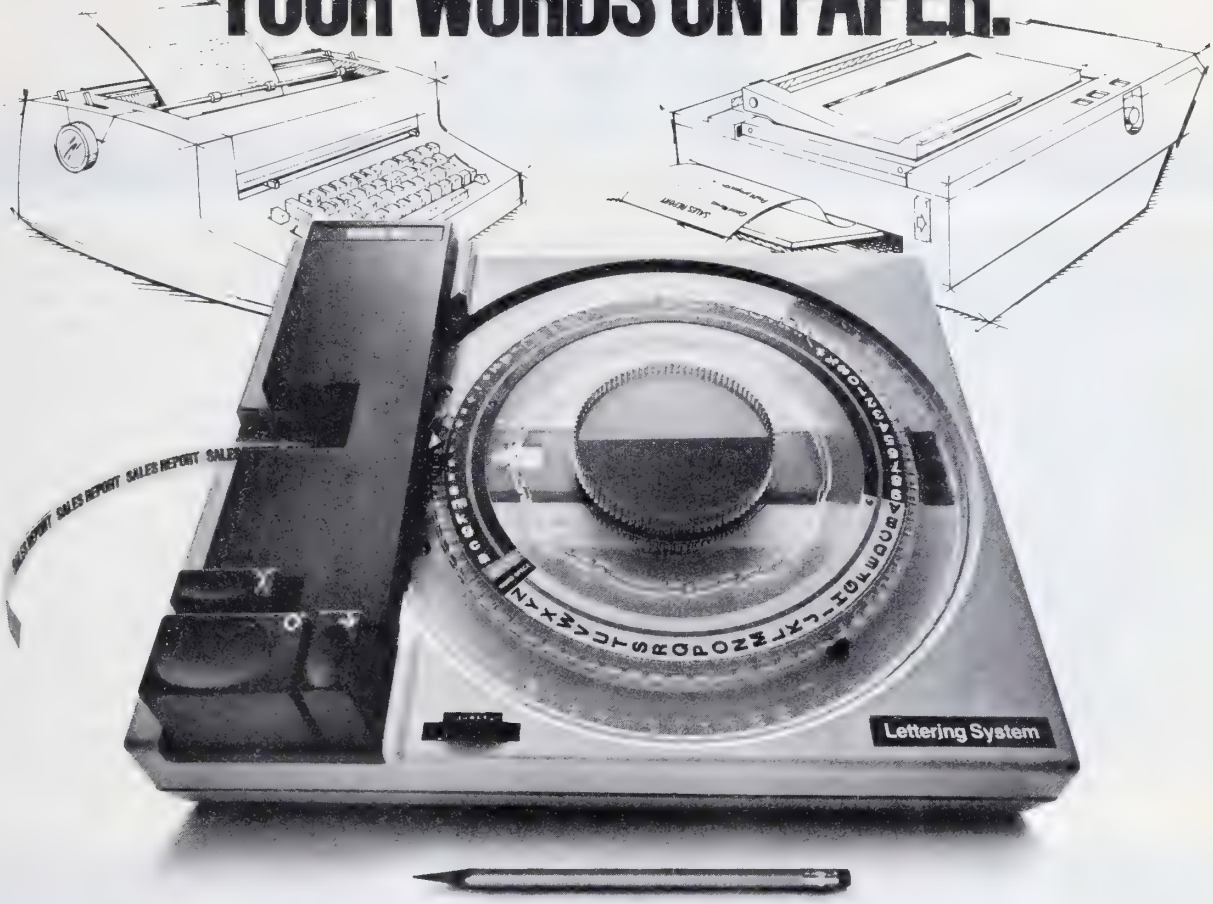

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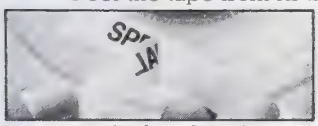

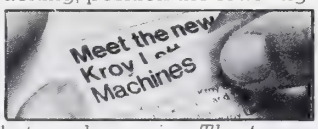

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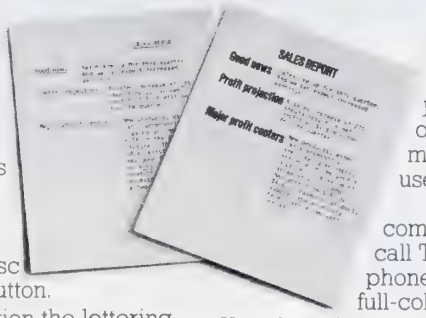

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MINNESOTA

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added by the manufacturer and third in employment. Only California and Massachusetts employ more people in this vital industry than Minnesota.

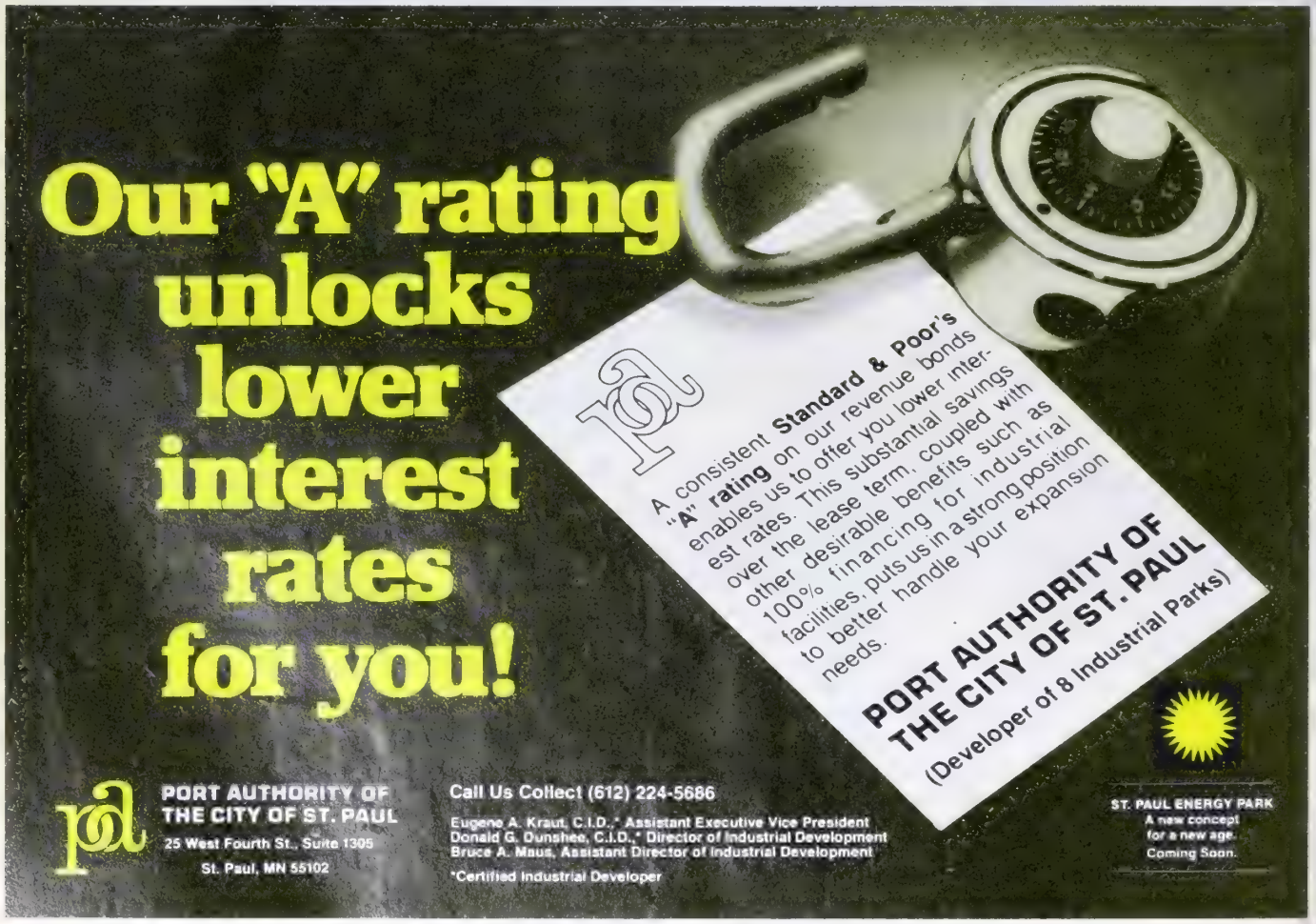
Although Minnesota's manufactured exports are varied, "non-electric machinery," which includes computers and scientific instruments, alone accounted for $920 million in exports or 46 percent of all manufactured exports from the state.

Energy

Minnesota's energy sources are 43 percent from oil, 25 percent from gas, 21 percent from coal, 10 percent from nuclear power and one percent from miscellaneous sources. The state is now dependent on outside supplies for current basic fuels other than wood and forest products.

According to an article which appeared in the Minneapolis STAR in 1980, "while Minnesota is a leader in pursuing alternative sources of energy — such as special energy crops, wind, hydro-power and solar heating — most experts believe the state will remain substantially dependent on outside energy supplies for at least the next several decades."

There are several bright spots in this picture. Minnesota is well supplied wi dependable electric power. Minnesota geographically close to sources of coal, the chief source of electricity in this state. Burlington Northern, headquartered in St. Paul, owns more of the country's coal reserves — 11 billion ton — than any other single entity besides the United States government. And th state has 7.2 million acres of peat, the



gest reserves in the lower 48 states, t stand mostly undisturbed. Several spects to stabilize the state's energy plies through pipelines are in var- s stages of development. Two com- ies, one of them Minnesota's largest nery, have announced plans to cre- a pipeline system to pump an addi- al 130,000 barrels of oil a day into state. Another proposal, the North- Tier or "All American Pipeline," a e project that would run 1,500 miles n the West Coast to Minnesota, is in early stages of development.

in Cities Metropolitan Area

he Twin Cities seven county metro- itan area is home to about half the dents of Minnesota. It is the 15th gest metropolitan area in the United es and according to sales and marketing management projections, only six major metro areas are expected to grow faster in the next five years.

Minneapolis-St. Paul has the highest percentage of young adults 18 to 34 years old of any metro area in the country—32.3 percent. The Twin Cities metropolitan area is 15th among major metropolitan areas in total retail sales per household.

The Twin Cities are a financial and distribution center for the entire Upper Midwest, an area of diversified economy and steady, stable growth. Minneapolis is the seat of the Ninth Federal Reserve District. Two of the nation's largest bank-holding companies are located here, together with three of the largest insurance companies in the country. The Twin Cities metropolitan area is the second largest inland

An aspiring member of the young adult majority.

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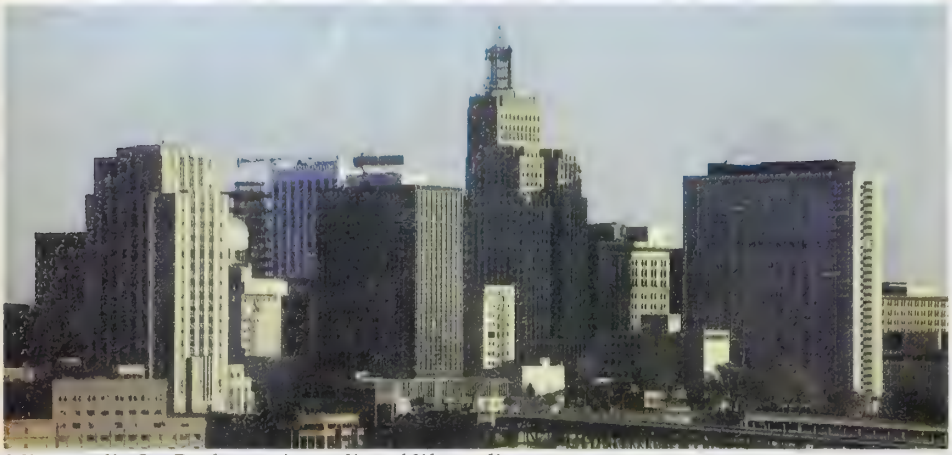

Minneapolis-St. Paul: tops in quality of life studies.

insurance center in the country.

As might be expected, the food industry is well represented here. Minnesota's food processing industry is the ninth largest in the nation. More than half the cake mixes manufactured in the United States are produced by Min neapolis-based firms. Betty Crocker an the Pillsbury Doughboy live here. The area is headquarters for General Mills, Pillsbury, Peavey and International Mu tifoods. Further evidence of the entrepreneurial spirit is found in the streng of the companies which have prospere without public financing. The world's largest privately held company, Cargil Inc., and the eleventh largest, the Carlson Companies, are located here. Minneapolis is also home to the Minneapolis Grain Exchange, the world's largest cash grain market and one of t federally licensed commodity exchanges. The St. Paul Union Stockyar in South St. Paul is the world's larges livestock market.

Though the Twin Cities are a center of the regional economy, they are becoming an increasingly important fact in world markets.

Much of the credit for Minnesota's creasing penetration into world marke goes to the state's agricultural and hig technology firms.

The state's high technology industr is represented by such corporate gian as Honeywell, Control Data and Sper Rand Univac. The state's largest private employer, 3M of St. Paul, emplo 22,000 people in Minnesota, manufacturing thousands of products from th most sophisticated and complex to simple down-to-earth and universally popular Scotch Brand tape.

The Twin Cities have won top hon in four notable studies of United Stat cities conducted since the early 1970s. In the 1972 Urban Institute Report, Washington, D.C., ranked Minneapol St. Paul first, based on a composite in dex of 12 quality of life indicators. A 1975 Midwest Research Report ranke Minneapolis-St. Paul 5th among 244 1975 study, by Arthur M. Louis, used statistical comparisons of the nation's largest cities. Minneapolis ranked eig in quality of life; St. Paul was 13th. A the Council on Municipal Performanc a nonprofit New York based research group, ranked Minneapolis as one of the top five cities in the country in terms of soundness of the local economy.

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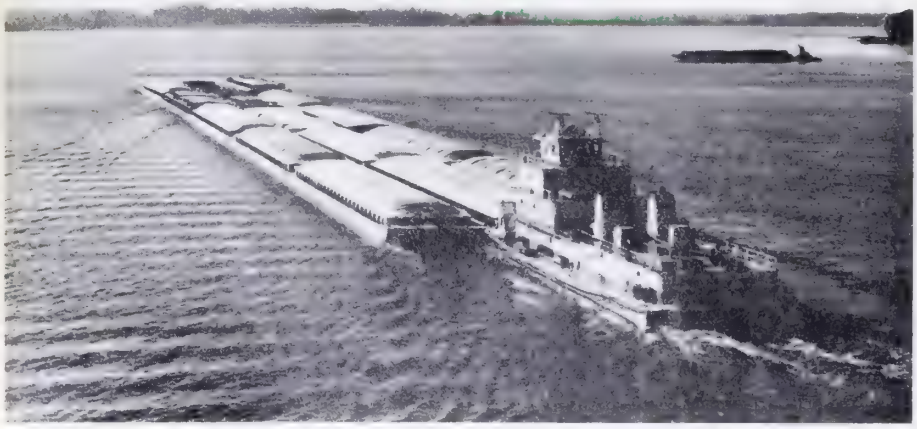

Metromedia's John Kluge knows something about broadcasting—and he isn't spending a dime on cable television systems.

The play's the thing

By Howard Rudnitsky

SOBER PUBLISHING COMPANIES like Dow Jones and Knight-Ridder may be spending millions on cable television systems, but not John Kluge. He's the 66-year-old founder of Metromedia, Inc., a leading independent broadcaster.

"We're not investing one dime in hardware," he explains. Instead, Kluge is investing in television programming, something he views as a sounder long-term bet. "We look at ourselves as a [railroad] roundhouse," he explains. "Whichever track we can shoot down—cable, cassettes, satellites, syndicated markets—that's where we'll be able to go. The play's the thing, and we're putting our money there."

Interestingly, despite the current fad for cable stocks, investors seem to agree with Kluge. At Metromedia's annual meeting last month, he warned that "advertising revenues may moderate" and that 1981 wouldn't be anything like 1980—a year when profits were up 31%, to $55 million, on revenues of $450 million. Still, after Kluge spoke, Metromedia's shares, which had moved from just over 100 to 123 earlier this year, tacked on another $13.

Why? Well, analysts liked the company's strong first quarter. And they're impressed by some Nielsen ratings that Kluge reported. Metromedia television outlets in Houston, Los Angeles, New York and Washington, D.C. have scored well recently—an indication of future earnings growth. Out of seven stations Kluge owns, five are independent, and he's been especially astute of late in his programming buys—proven series such as *All in the Family* and *M*A*S*H*. Sponsors appear willing to pay up for reruns of reruns.

The New Jersey-based company is also involved in radio and outdoor advertising—but Kluge's big bet for the future is program development. Back in the early Seventies Kluge also thought TV programming was the wave of the future. Unfortunately it didn't work out and he cut back sharply. Now he's trying programming again.

Metromedia's Chairman John W. Kluge
Cautious, but happy as a clam.

Last year he hired Robert Wood, an independent producer and former president of CBS-TV, to head an operation that Kluge hopes will make Metromedia a major supplier to anyone with television time to fill. Such efforts aren't profitable yet, and Kluge admits that it will be "several years" before they are. But better, he reasons, to spend tens of millions annually for a few years than to bet the farm on a cable company bid.

Despite $130 million in long-term debt—high for a broadcaster—Metromedia tosses off over $70 million a year in cash flow. And Kluge, a German immigrant who worked his way through Columbia University and bought a company with two non-network television outlets by 1959, has lately figured his own business is a bargain. In 1977 and 1978 he borrowed to buy 31% of his equity capitalization. Last year Metromedia spent $25 million more for its stock and hiked its dividend by 25%. Result: In the past few years, share prices have tripled.

Such financial showmanship, as well as the recent sale of moneylosing businesses, breeds speculation that Kluge's sprucing up to sell out. He owns 17% of Metromedia's shares (worth about $95 million), institutions hold another 47% and there's no obvious successor in sight. Wall Streeters remember that Kluge and Transamerica's John Beckett almost had a merger in 1969—but it collapsed when Metromedia's earnings tumbled and the two strong-willed executives couldn't come to terms.

Still, Kluge denies he wants to retire and Metromedia's present socko performance gives his words a ring of truth. When he dickered with Transamerica before, Kluge's earnings were in the doldrums. Not so today: Broadcasting business is great. "He's having too good a time to leave," says one analyst. "With the TV stations, Kluge is a big shot. Without them, he'd be just another rich old guy."

Clearly, would love to be on the scene to prove his pro-cable competitors wrong. But he may be able to manage that—and to arrange a premium-priced merger as well. ■

Japan's display of computer prowess in Chicago last month frightened some U.S. industry leaders, but goaded others—Honeywell's Ed Spencer among them.

"Like a dose of medicine"

By Larry Marion

THE MIGHT OF THE U.S. data processing industry was displayed in all its technological wonder at last month's National Computer Conference in the main showroom of Chicago's cavernous McCormick Place. But it was the group of companies huddled in smaller booths below the main floor that drew the most respectful, not to say fearful, attention.

There, in display space allotted to newcomers, were the Japanese: Fujitsu and Hitachi—which already have delivered computers to the U.S.—and newcomers like Sony, Toshiba, Canon and Sharp. The Japanese showed a broad spectrum of computer equipment, from $1 million-plus data processing centers to $250 pocket computers that looked like calculators injected with growth hormones. But most of their machines were aimed at the fast-growing market for small, desktop computers that sell for less than $10,000. That's a $1.1 billion segment of the $75 billion U.S. data processing market.

The implication of those below-stairs displays was ominous: As their compatriots Toyota, Datsun and Honda had done in cars, the Japanese computer makers signaled in Chicago that they were first going to concentrate on attacking the less expensive, small-machine end of a major American market.

Chairman William S. Anderson of NCR Corp. was frankly worried. "Japan is seeking a dominant worldwide position in the computer industry," he said. "In just a few years the Japanese computer industry has moved from nowhere to the number two position in the world." Anderson, who spent four years in a Japanese prisoner-of-war camp, already faces a challenge from Fujitsu in NCR's cash register business. Industry consultant Harry Edelson was no more cheerful. He predicted that "the fight will be over price next year because the Japanese are making computers at a lower price than U.S. manufacturers."

Honeywell Chairman Edson W. Spencer
Tastes bad, but it's good for you.

The Japanese computer push comes at a worrisome time for the U.S. industry. Profitability has been slipping—IBM's pretax and pre-interest return on assets dropped to 23.5% last year, from 32.5% in 1978; Burroughs' plummeted to 7% in 1980 from 18.6% in 1979; and NCR dropped to 13.6% from 14.3%. Many in Chicago foresaw a depressing pattern: The Japanese compete on price, and therefore reduce any chance for profitability gains, and the domestic computer begins to go the way of the U.S. television set.

Can things really be so bad in the most advanced of our industries? Have we, even here, no ability to compete? Surprisingly, some of the cheeriest executives at the computer conference were from Honeywell Inc., which has taken a decade to put together a respectable entry in the large-computer business but still trails the industry averages in return on assets—although its returns have been rising steadily for five years.

"Don't worry," said Stephen G. Jerritts, who heads Honeywell's $1.6 billion information systems business, the part that now produces more than a third of the $5 billion (revenues) company's $294 million in net income. "The Japanese are not going to invade and capture 10% of the American market overnight."

Chairman Edson W. Spencer was confident enough to see a bracing tonic in those Japanese exhibits. "Despite the views of many in our industry, I believe that foreign competition is beneficial," said Spencer, who has been Honeywell's CEO for seven years and is credited with shaping up its computer business. "Foreign competition is like a dose of medicine. It may not taste good, but long-term benefits far outweigh the initial negative response."

The troops at NCR and Burroughs, both of whom are entering the small-computer field, and those of Wang, Digital Equipment, Zenith and Apple might be pardoned if they greeted Spencer's sentiments with a loud "Easy for him to say!" After all, Honeywell isn't competing in the small-computer trenches. Spencer and Jerritts' product strategy is geared to the higher end of the market. The company's newest computer series, the DPS 6, ranges in price from $40,000 to $600,000. Honeywell sees itself in the business of selling not machines but office automation systems using the new computer networking technique.

"We're interested in the large users who want multiple work stations tied into a network of computers," says Spencer. "That's our niche." Jerritts is even plainer on Honeywell's market aims. "I don't know how to make a dollar selling small systems directly to small users," he says. "You can't be everything to everybody." It's an approach in computers that sounds remarkably like that of General Motors in cars (FORBES, *May 25*): Leave the low end for the invaders and concentrate on securing the middle-to-upper, more profitable market segments.

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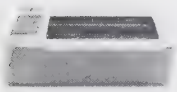

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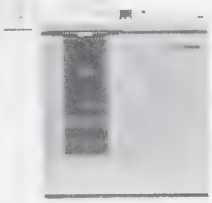

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TRW-Fujitsu's Sidney Webb
The Japanese lag in programming.

Is such a strategy wise? Perhaps. Sidney Webb, who heads up Fujitsu and TRW Inc.'s (approximately $50 million revenues) computer marketing venture, points out that about half of the total value of a computer system is in the programming and support services. "The Japanese may be five years behind American programming expertise," says Webb. In other words, Webb is saying that the U.S. advantage—short-lived as it may be—lies in packaging the entire system. The instructional side of the business (what the computer industry calls software) is an American strength, rather than the less profitable machine production side.

That's all right with Ed Spencer. He has brought prosperity to Honeywell in recent years by linking its computers to the process controls that were always the company's specialty. In this way he has built a base of loyal customers in manufacturing industries—Weyerhaeuser, General Electric and Exxon, to name a few. With the DPS 6, he and Jerritts are out to convince those customers that Honeywell's knowhow can run their offices as efficiently as it runs their plants. "Our objective is not to sell a black box," says Spencer. "We make money selling distributed processing systems."

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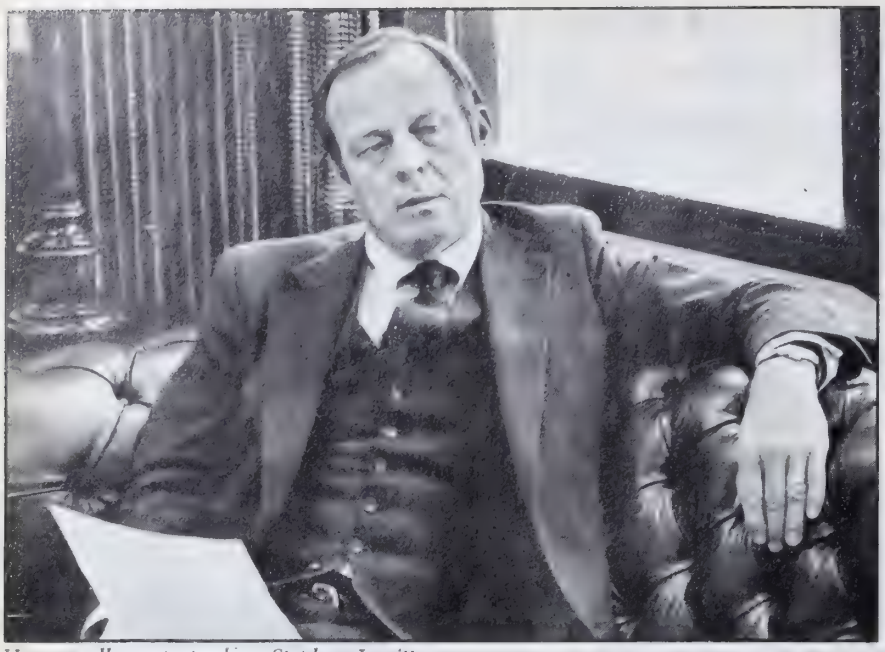

Honeywell computer boss Stephen Jerritts
Can't make a dollar selling small.

And while he doesn't face direct competition from the Japanese, Spencer is spending heavily against the day he will—the day when Fujitsu and friends expand their U.S. marketing efforts to the higher and more profitable end, as Toyota, Datsun and Honda have done in cars. Capital spending for Honeywell's computer business was up 67% last year, to $62 million. This year it may be up another 36%. Research and development for the whole corporation is up 22%, to $360 million, this year and will be maintained, says Spencer, at roughly 8% to 9% of total revenues. The research budget is going for advanced electronic chip designs and other computer-related projects. But the capital spending is going for robots, automated test equipment and in-house chipmaking machines. The aim: to produce higher-quality computers at lower cost to compete with Japanese production abilities.

"We have to produce better-quality products," says Spencer. "The Japanese learned that producing better quality is good business. It costs more during manufacturing, but less once it's out in the field." You bet it does, says Sid Webb of TRW-Fujitsu, looking over reports from TRW's computer service division, one of the nation's largest independent repair shops. "With a Japanese computer you might have one or two calls a year. The same type of American computer may require eight to ten calls." The sorry fact is that American computers suffer what are called "out of box failures"—nothing happens when the customer first plugs them in. To remedy this embarrassing failing, American manufacturers plan to pretest entire computer systems before shipment, rather than just checking the memory or logic subsystems.

As Ed Spencer says, the competition is beneficial. It is forcing the Americans to improve their product reliability, giving a better deal to the customer and in the long run saving on manufacturing costs. But industry in the modern world does not live by belated virtue and good intentions alone. The American computer makers are not waiting until the Japanese have more than 20% of their market, as did U.S. carmakers, to seek help in Washington.

Industry groups such as the American Electronics Association and the Electronic Industries Association are pushing for tax credits for R&D expenditures and faster depreciation schedules for quickly outdated equipment like chip-making machines. In the meantime, Honeywell, IBM, Sperry and Burroughs are getting a share of a $150 million Defense Department program to develop a new generation of superfast electronic chips, reminiscent of the Pentagon's Minuteman missile development in the 1950s, which led to the first integrated circuit.

Whether U.S. computer men are as confident as Honeywell's Spencer or as worried as NCR's Anderson, clearly they're not complacent about the Japanese challenge. Nor have they reason to be. ■

Robert Vesco nearly ruined International Controls. Eight years later, Elmer Sticco says he has set things right.

De-Stalinization, corporate style

By Thomas Baker

OF ALL THE PROBLEMS Elmer Sticco has tackled as CEO of International Controls Corp., public relations has been the hardest. Even his current annual report offends him. "Look, here in the president's letter," he complains, "I try to keep his name out, but there it is in the fourth paragraph."

Sticco is railing about Robert Vesco, fugitive financier and, undeniably, the founder of ICC. But thanks to Sticco's handiwork Vesco's troubling shadow may soon be gone. "There is a real possibility," he says, "that after next year we can put out an annual report without the name Vesco."

Sticco did his last bit of housecleaning in December, when the 25% of ICC stock formally held by Vesco was returned to the company. In exchange, ICC paid Vesco's tax liabilities—to the

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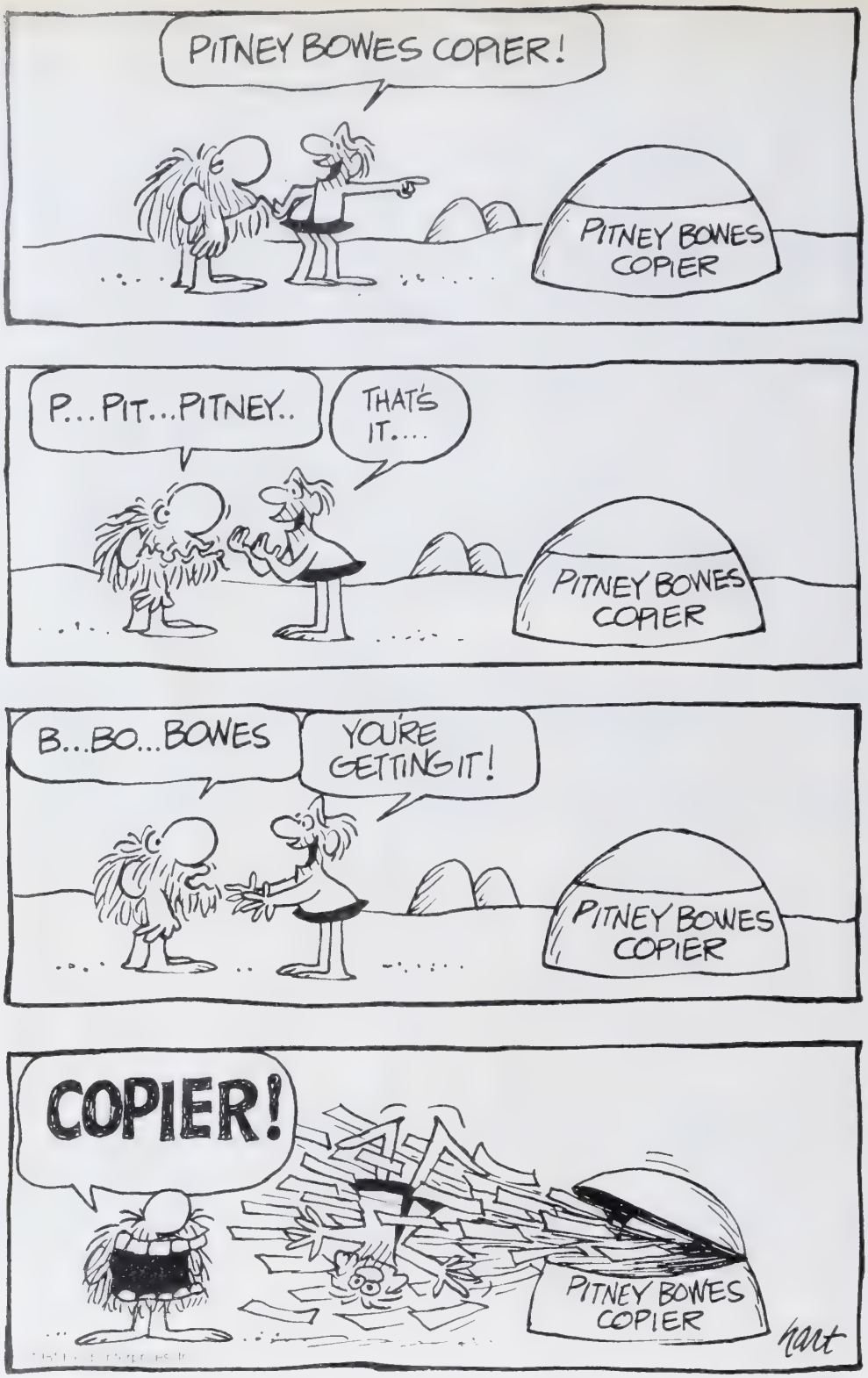

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tune of $840,000—and gave $640,000 to his family. ICC also has just written the last check on an $11 million settlement with investors in IOS Ltd., the mutual fund empire that Vesco-led ICC took control of in 1971. As a result of those two breakthroughs, ICC's share price moved from 5 to 20 in less than a year. After a recent 5-for-4 split, the stock is back at the 21 level.

Many investors think the company has bright prospects in aerospace and high-technology markets. Its 1980 earnings (before extraordinary items) of $7.2 million—on revenues of $118 million—were up by 70%. But Sticco, who recently moved ICC's headquarters to Florida, believes that's just the beginning. "Even while we've been regrouping," he says, "we've still had one goal in mind: to be a $300 million-to-$500 million company."

Overreaching? Perhaps. But then a man without the inclination to think big would probably have left ICC years ago. An ex-C.P.A., Sticco learned the high-growth scene with a miniconglomerate called Electronic Specialty Co. When a Vesco takeover bid sent many of his colleagues packing he stayed on to run the company, impressed by Vesco's vision of growth. So began a complicated charade. On visits to New Jersey headquarters, Sticco would get wind of

International Controls Chief Executive Elmer Sticco
"There's nothing I could get involved with that I couldn't handle."

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Vesco's international escapades and didn't like what he heard. To protect his turf, he kept moving divisions to Connecticut, away from his boss, out of harm's way. In 1972, just after Vesco nixed Sticco's bid to transfer the rest of ICC's domestic operations, the Securities & Exchange Commission lowered the boom.

With Vesco on the first plane to the Bahamas, Sticco convinced investigators that he had nothing to do with ICC's wilder schemes and wound up running the company for a four-member court-appointed board. "I came into the first meeting with a list of 83 problems," he explains. To solve them, ICC took a $36 million writeoff and sold 11 of its more than 20 divisions. Shareholders' equity sank to a paltry $4 million. Scrambling for time, Sticco personally took creditors to his plants "just to prove to them that they existed." Gradually, ICC paid off its loans, moving its debt-to-equity ratio from 11.6-to-1 in 1973 to the current 0.6-to-1.

Today Sticco has ten scattered divisions. A $12 million-a-year bomb body and missile casing business should double in two years with increased military demand. ICC also sells microwave tubing to Western Electric and to the military, and parts for commercial aircraft to companies like Boeing. Another division supplies braking systems that let military planes land on short runways—a necessity at many Third World airports. "ICC is positioned in markets that very few other companies understand," observes Elliot Levine, an analyst at First Manhattan Co.

Sticco combs annual reports and even incoming mail for leads. "This one's too small for me," he notes, reaching into his wastebasket for a letter touting a $15 million manufacturer. "I decided to deep-six it."

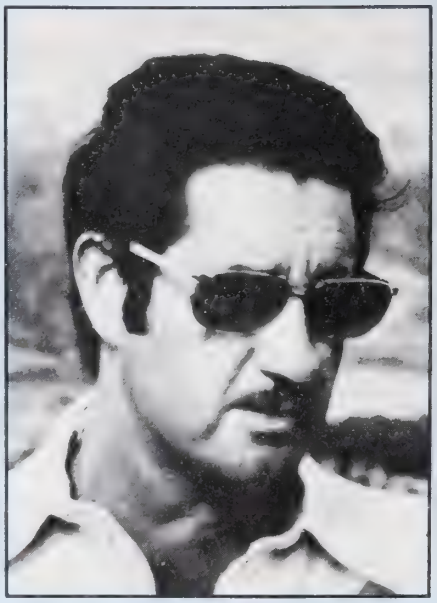
Still, Sticco and ICC Chairman William Burgess—the original founder of Electronic Specialty, back on board since 1978—are hungry for acquisitions. Unwilling to retain investment bankers, Sticco combs annual reports and even incoming mail for leads. "This one's too small for me," he notes, reaching into his overflowing wastebasket for a letter touting a $15 million manufacturer. "I decided to deep-six it."

Sticco would rather double sales in one big move, and the last eight years have convinced him he can cope with anything. "If we're sitting here with quality management, there's nothing I could get involved with that I couldn't handle," he explains. ICC shareholders' equity, in fact, has inched back to where it was in the late Sixties—around $33 million. So Sticco believes he may even wrangle a merger paying part cash and part equity. One potential partner: United Industrial Corp., a New York-based miniconglomerate; its chairman, Bernard Fein, bought into ICC in 1978 and he and UIC own 10% of its stock.

The prospect of such expansion even makes ICC's chief executive wistful about Vesco. "He rained havoc on the company, but that gave me the opportunity to get it straightened out," says Sticco. "If he'd just kept his nose clean and run this company right, he'd be sitting today with $25 million worth of stock." And Elmer Sticco, who owns $800,000 worth of ICC stock himself, might be just another frustrated middle manager. ■

Will he ever return?

Robert Vesco was born in Denville, N.J.—and quickly developed his uncanny ability to impress and persuade. After a stint as a small-time investment consultant, in 1964 he landed a minuscule high-tech company called Cryogenics, a corporate shell called International Controls and the U.S. distribution rights to one German valve. Five years later, however, Vesco's annual report bulged with web-like maps of corporate restructuring and divisional philosophies. "People ask me if he was a financial genius," says Elmer Sticco, ICC's current chief executive. "I tell them it was more like *in* genious."



Robert Vesco in Costa Rica, 1974

Vesco, in fact, once managed to float a $25 million Eurobond offering—at a time when ICC's shareholders' equity was less than $2 million. In efforts to broaden his empire, he considered acquiring several brokerage houses, but the potential of Bernard Cornfeld's crumbling Investors Overseas Services financial organization was more tempting. ICC bailed out IOS with a loan, eventually owning 38% of its stock.

Precisely when Vesco's financial fast talking turned sour is hard to see—and even harder to prove. The SEC eventually alleged that he had moved $224 million of the assets in IOS' four U.S.-based funds out of blue-chip stocks into various offshore Vesco enterprises. In 1972, however, Vesco took a gamble that cemented his reputation: $200,000 in cash delivered to—and accepted by—the Nixon reelection committee. Eventually, commandeering the corporate 707 (complete with discotheque and sauna), Vesco fled to the Caribbean.

For a time he led the good life in Costa Rica, whose president was the beneficiary of a number of Vesco investments. Now Vesco, 45, is in the Bahamas, still a fugitive from charges of securities fraud. He continues to deny any wrongdoing and has successfully avoided every extradition attempt—in part because the obscure trail of his financial dealings precludes an airtight case.

Still, those who know Vesco claim he wants to return to the U.S. Last summer a subcommittee of the Senate Judiciary Committee wanted to bring him back to testify, under immunity from arrest, but the Carter Administration said no. Now whether he'll actually come home depends on the Reagan Justice Department—where even the toughest negotiator will be leery of facing off with Robert Vesco.—**Thomas Baker**

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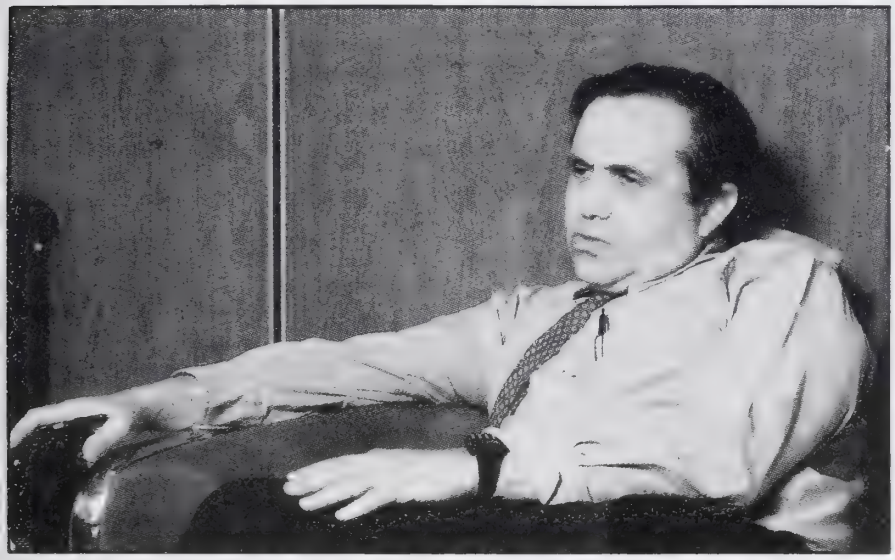
For seven long years, the SEC's Stanley Sporkin was on the receiving end of criticism by reporters. In this interview he turns the tables on his tormentors.

One last roar

Former SEC Enforcement Chief Stanley Sporkin
"The Hunt case—is that small? New York City? Gulf? Lockheed?"



By Richard Greene

STANLEY SPORKIN was agitated. The outgoing director of enforcement for the Securities & Exchange Commission was pacing back and forth in his office, pausing, bouncing on the balls of his feet to deliver yet another barrage.

"The problem is that the press accepts things as the facts and then does nothing about it. It's just crazy. It's become a very lazy industry, quite frankly, because you don't test people when they tell you something. What am I supposed to do? You can't win. They make these accusations . . . it's easy. . . ."

This blunt—refreshingly so—blast at the press came after this reporter asked about recent charges in *Business Week* that under Sporkin the SEC had wasted valuable time chasing small, unimportant transgressors. Just moments before, sitting there thrusting the point of one pen into the butt end of another, he had been answering questions calmly, quietly. Then the dam burst.

"I can't deal with accusations like that, that are made out of air," he says, up on his feet instantly. "The Hunt case—is that small? Was New York City a small matter? Where are these small matters that we're talking about? Look at the record. Look at the Lockheed and the Northrup and the Gulf Oil. . . ."

Sporkin clearly feels aggrieved at the way the press has represented his record over the seven years he served as enforcement division director of the Securities & Exchange Commission. He seems happy to have moved to the Central Intelligence Agency as the general counsel, a post in which he will be less visible to, and less involved with, the press. Clearly, he is

a thin-skinned man, because, if the press has sometimes criticized him, it has also often portrayed him as crusading prosecuting attorney.

He wants people to know that, press criticism to the contrary, he is not and never was a believer in excessive government regulation. He almost sounds like a small businessman complaining about the forms he must file: "There are a tremendous number of restraints that have been placed on government agencies. It's getting very difficult for us to do our job. You're talking not only about the right to financial privacy, but you've got restrictions on the use of income tax information, Freedom of Information Act problems, and problems from the Sunshine Act, which opened up certain SEC activities to the public. It's very difficult for the government to operate.

"You can see what Congress did to the business community. It got to the point where they could scarcely operate. They've done the same to government and they're going to paralyze the government . . . and I mean that sincerely. You know, I just can't believe that we've got an act that permits foreign enemies to get intelligence information under a Freedom of Information Act request. It just doesn't make sense. Or that anyone can come into this agency and get information concerning very sensitive enforcement matters."

But weren't these laws put in to protect the citizenry from an overzealous government? "The problem you have," he says, "is that the public *cannot* have it both ways. They can't want all the privacy in the world, have relative financial freedom and personal freedom and at the same time be protected by the government. It can't be both ways. For example, we find it unconscionable for our planes to be hijacked and therefore everybody has to see a piece of his or her personal freedom given away in order to have a program that brings us down to almost a zero base hijacking rate."

The same with the SEC, he says. An occasional abridgement of absolute liberty may not be too high a price to pay for honest markets. "We've got to get access to foreign information. When you have foreigners who want to raise money in our markets, they are going to have to give the same kind of information that our companies give. Basically, we need better information identifying who the foreign people are that are

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involved. In the takeover area, of course, this is a big thorn."

You can't protect the public unless you have some elbow room. Purists have said that consent decrees should be forbidden; in every case transgressors should be dragged into court. "Can I tell you something?" he says, and there's no doubt he will. "If you did away with consent decrees somebody's going to have to invent something different that would do the same thing. You cannot run this operation without consent decrees.

"I'm proud of some of our consent decrees. We don't just tell the company to stop doing it. We usually have affirmative action, looking not so much at what they did in the past, but how do we prevent it from recurring in the future. We've gotten back millions of dollars for investors in our decrees. We took the International Controls case and took a company that was on the verge of bankruptcy, that would have gone into bankruptcy and brought it back. . . . Now it's a beautiful company." He pauses for a moment, reflecting on this triumph. "It's a wonderful company."

Clearly, Sporkin is quite proud of his record, which includes the Foreign Corrupt Practices Act, the whole Vesco affair, the cleaning up of the back rooms in Wall Street and a number of large corporate cases. A note of sadness enters his voice as he talks about leaving the SEC. There's so much left to be done: "The tax shelter area is a big thing, the takeover area is going to be a big thing. The insider trading too. Now we're seeing that they're utilizing the option market, which is a new technique in insider trading. . . . There'll be, I'm sure, some corrupt practices cases. There'll be some hot money cases. . . ."

The list goes on. "There are a lot of things taking place today. We have a loosening of regulations and we're making it easier to go to the marketplace and get money. You've got the energy area, that's attracting a lot of money. You've got the Denver problem [FORBES, July 23, 1979] as you recall. You've got a lot of new offerings coming into the marketplace, and there will be failures that will take place and then the questions are going to be raised, how the offerings were distributed."

Push him, though, on the future and his new job and Stanley Sporkin falls uncharacteristically silent. It's clear he's already beginning to enjoy a future free of inquiring reporters. ■

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Can G. Heileman be the third-largest national brewer without a national brand?

Coming up fast on the outside

By Paul B. Brown

A TELESCOPE IS POINTED at the headwaters of the Mississippi River in Russell G. Cleary's office in LaCrosse, Wis. A pair of binoculars lie on a conference table near the back wall.

"They're for watching eagles," says the 47-year-old chairman of the G. Heileman Brewing Co. "People never believe me when I tell them we have eagles up here. I finally had to take pictures to prove it. I like watching eagles."

There is double meaning in these remarks, of course. Anheuser-Busch Companies, Inc., the nation's largest brewer, features eagles on all its products and even has one in the corporate logo. Cleary likes watching those eagles, too. Heileman is now the country's sixth-largest brewer and could be third by year's end.

In the never-ending beer wars, the conventional wisdom is that the giants—Busch and Miller Brewing Co., which together own 49% of the market—are expanding at the expense of the regional brands. The local breweries seem doomed to fade away like the bubbles in day-old beer. Except for one: G. Heileman, the fastest-growing beer company in the country, with a return on equity that has averaged 30.2% over the last five years, double the beverage industry average. Cleary has achieved that track record in much the same way that the James River Corp. (FORBES, *Mar. 3, 1980*) has in the paper business: by acquiring at steep discounts the small regional plants the big companies had no use for, thus gradually building up enough capacity to achieve economies of scale in materials purchasing and administration. What's more, he did it mainly out of cash flow, lowering debt gradually over the decade to a 27% debt-to-capital ratio—roughly the industry norm.

"We are building a house brick by brick, and it's solid," says Cleary. "We don't give a damn about what anybody thinks. Maybe it isn't the Harvard textbook way of building a beer business, but it works."

Robert S. Weinberg, a consultant retained by most of the nation's 42 beer companies, thinks Heileman's achievement has been brilliant. "They are the guerrilla fighters of the brewing industry," he says.

Heileman executives like the analogy. John S. Pedace, executive vice president for marketing, uses it when describing the competition. "Busch and Miller are the enemy," he says, pounding the table hard enough to upset his roast beef sandwich. "It's really that simple. While we respect them, we are not going to be intimidated by either their size or their bankroll."

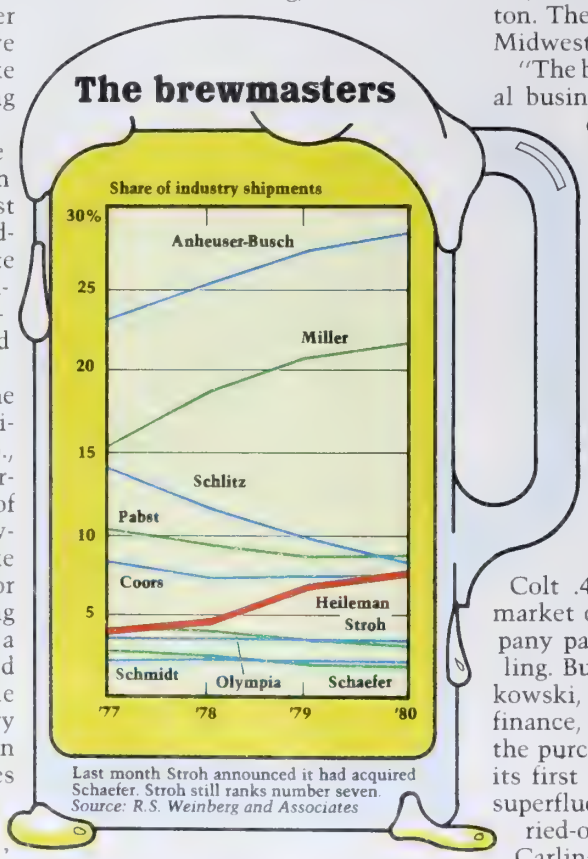
Cleary agrees. "This is a fiercely competitive business. We have to be aggressive. If we play by their rules, we are going to be killed. That's the history of this business."

By their rules, Cleary means competing head-to-head nationally against Busch and Miller. He quickly concedes he lacks the resources to do that. After all, Busch's net income last year was 5 times Heileman's $34 million. So Heileman competes in selected markets instead. The company is now number one in Wisconsin, Illinois, Minnesota and Washington. The bulk of its strength is in the Midwest.

"The beer business really is a regional business," says Cleary. "We have chosen not to force our brands into new markets but to build on the regional brands we have acquired. They have been there for years and mean something to people." So Heileman buys local breweries, instead of building new plants, because it is cheaper. And Cleary buys only when he knows he can get a good price. The 1979 purchase of Carling National Breweries in Maryland was a classic example.

Heileman wanted Carling's Colt .45 malt liquor label and its market on the East Coast. The company paid $33 million cash for Carling. But according to Robert J. Korkowski, Heileman's vice president for finance, his company stood to recoup the purchase price even before it sold its first can of Carling by selling off superfluous capacity and using a carried-over tax loss that the ailing Carling couldn't use.

Lately Heileman has built up formidable internal growth as well, in part because of Cleary's policy of competing chiefly against the weaker regional brewers. When acquisitions during the last two years were filtered out,



Only Busch, Miller and Heileman have expanded their market share in the past four years. While Busch has grown by 23% and Miller by 39%, Heileman's sales are up 91% since 1977.

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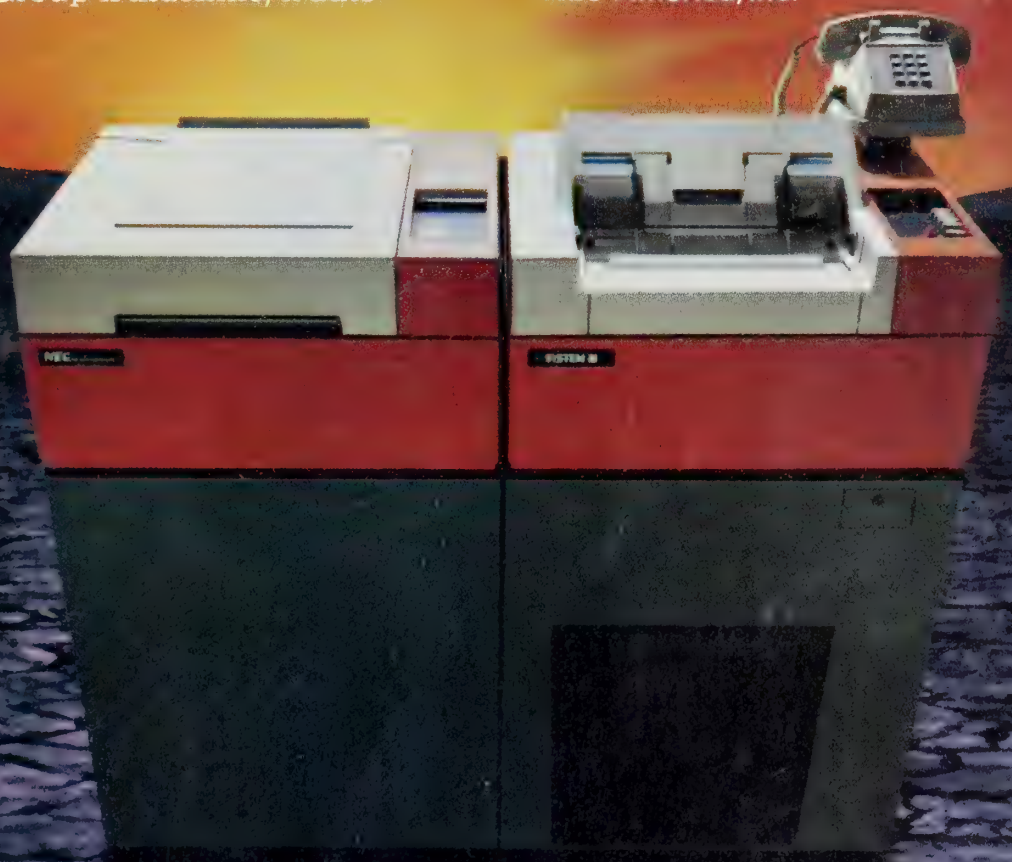

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G. Heileman Chairman Russell G. Cleary
"If we play by their rules, we are going to get killed."

Heileman was still the third-fastest-growing beer company in 1979 and second-fastest last year, according to consultant Weinberg.

How long can Heileman keep up the pace? Manny Goldman, a vice president with Sanford C. Bernstein & Co., is convinced that Heileman will be the nation's third-largest brewer by the end of the year, passing Pabst, Schlitz and Coors, which now rank third, fourth and fifth. The same view is not uncommon on Wall Street, where Heileman shares have increased from 7 in 1977 to a recent price of 38.

Heileman officials are a little more conservative. They have set a goal of 14.5 million barrels this year, an increase of about 10%. Given that, Cleary said the company should move up one place in rank and possibly two, "providing there are no further acquisitions."

Schlitz, the country's fourth-largest brewer, has suffered sales declines of 32% over the past four years and is rumored to be Heileman's next purchase, but Cleary won't talk about which companies he and his staff discuss on Saturdays when they stare at the map on the wall behind his desk.

"Right now, everybody below number two better think about what's going to be left," Cleary said. "There will certainly be fewer brewers than there are now." Even as Cleary was speaking, Stroh, the nation's seventh-largest beer company, was in the process of acquiring the F.&M. Schaefer Corp. of New York. The acquisition of Schaefer, formerly number ten, will not change Stroh's ranking.

Can he overtake Busch or Miller?

"I don't think that's our objective," he replies quickly. "I would rather be number three [in sales] with the highest return on equity and best earnings growth gains in the industry." Won't that become increasingly difficult for G. Heileman as it outgrows the regional game and is forced to expand its acquired plants?

Not at all, Cleary replies. He will be able to handle the expansion out of cash flow, for the most part, and when he runs out of small, regional breweries to acquire, he will simply go out and buy bigger ones. And even if he buys a larger company, it won't force Heileman out of its overall strategy of trying to corner regional markets with regional brands.

"If you look at the brewers below number two, you will see that they do not have uniform sales across the nation," says Cleary. "Each brand sells well in a particular area. If we were to buy Pabst or Schlitz or whoever, there would be no reason to try to sell the brands nationally. You just want to fish where the fish are." ■

Pessimistic about interest rates and inflation? Afraid of owning equities? Here is a man who thinks he's found a perfect compromise: convertible bonds.

The Rothschilds of Baltimore

The Money Men

By William Baldwin

When Stanford Rothschild Jr. graduated from the University of Pennsylvania's Wharton School in 1947, he went to work for Baltimore-based Sun Life Insurance Co. of America. His grandfather and granduncle had bought the company in 1893 for $15,000. Eventually Rothschild became Sun's president, but investment management was his forte: Over 20 years he helped turn Sun's $700,000 stock portfolio into $17 million. But in 1971, he says, he decided the insurance business would never thrive in a world of inflation. He sold Sun—by then public but still half-owned by the Rothschild clan—to Kaufman & Broad, the real estate firm, for $68 million in stock.

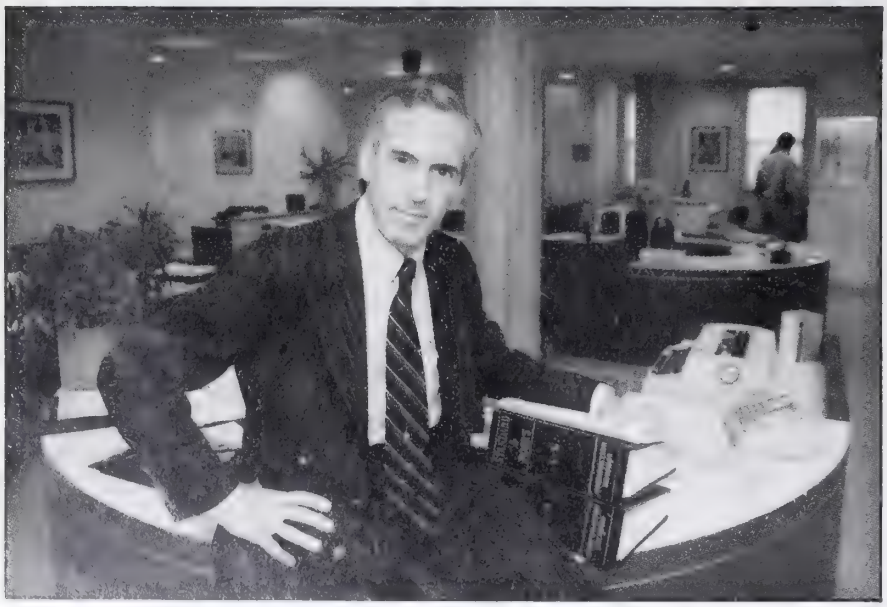
Rothschild, a slightly built, well-tanned man who looks younger than his 55 years, quickly unloaded his K&B shares and soon launched a second career as an investment adviser. Today Rothschild & Co., his eight-year-old firm, manages $400 million and has averaged a 13% annual return, *vs.* 8% for the S&P's 500. What sets it apart from the crowd is a commitment to convertible bonds and convertible preferred stocks. These account for one-third of Rothschild's assets and make his accounts less volatile than a pure equity portfolio. "We are willing to lag in an up market as long as we go down significantly less in bad markets," he says. "The cumulative results are a hell of a lot better." The results are also better than the typical combination of equities and bonds. "We have never used [straight] long-term bonds. These are inflation bear traps."

What makes convertibles so wonderful? They sometimes allow Rothschild to buy common stock at a bargain price. Tyco Labs, for example, is a company he likes. But instead of buying its stock, Rothschild recently bought 5 million francs' worth of Tyco's Swiss bonds. The 5.7% yield in francs is better than the stock's 3% yield in dollars, and if Tyco does well the bonds can be converted into Big Board shares. What's more, Rothschild got the bonds at a 2% discount from their then-current conversion value. That sounds too good to be true, but then not many American investors watch the Zurich bond exchange. "We have no patents in this business," Rothschild says. "A lot of what we do is simply knowing where to go and letting people know we are buyers of this merchandise."

Even though there are more than $50 billion of convertible securities on the market worldwide, the often obscure issues that Rothschild likes have public floats of as little as $1 million—too small for a big firm to bother with. So Rothschild keeps things small and close-knit. His cousin handles client relations, and his daughter designed his offices in a renovated building near Baltimore's inner harbor. He has only two partners: James Knittle Jr., 37, who was once the youngest investment vice president at Baltimore's Mercantile Safe Deposit & Trust Co., and Joseph M. Wikler, 40, who has an economics degree *summa cum laude* from Yale.

At the moment, Rothschild approaches his beloved convertibles with a dose of caution. In the late Sixties such hybrids were offered at hefty premiums to the already overpriced common stocks underlying them. By 1974 high interest rates made convertibles unattractive as bonds just when the market crash killed them as equity investments. Now the return of glamour stocks and the decay of straight long-term bonds is bringing a resurgence. "You can get sandbagged on new issues," says Rothschild, who buys almost exclusively in the aftermarket. "They often come out when the stock is popular."

Rothschild nonetheless sees some good buys among outstanding convertibles—at least in comparison to the stocks they can be exchanged for. "There are a lot of securities where



Stanford Rothschild of Baltimore's Rothschild Co.
Swiss-franc bonds are the best way to buy Tyco Labs common stock.

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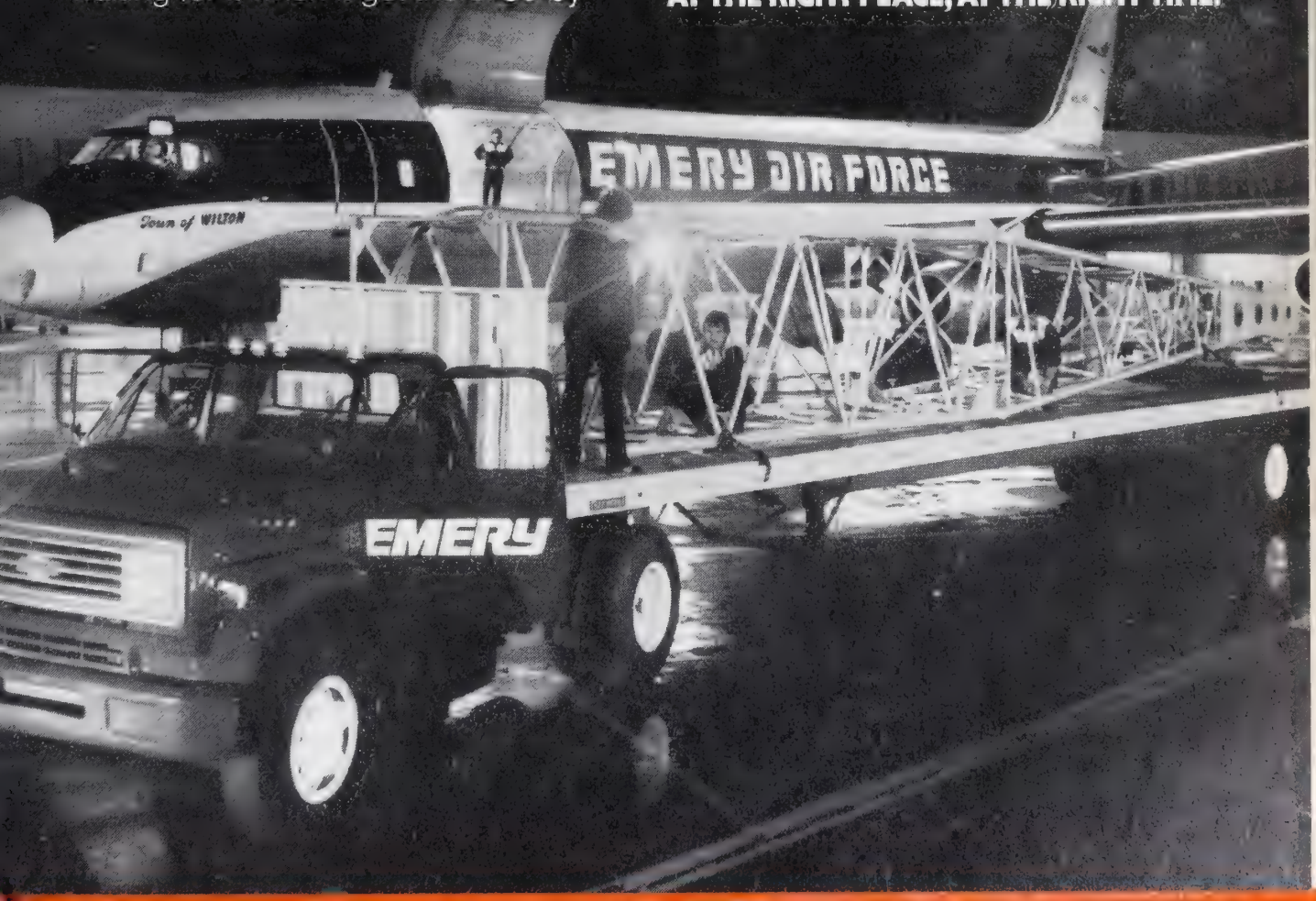

you've got to be a damn fool to buy the common rather than the convertible," Wikler says. Consider the Oak Industries 11% bond, due in 2000 and convertible into 40 shares of stock. The stock was recently trading at 33 and the bond at 137, so that the bond is at a slight premium to the underlying stock—$50 per $1,000 bond.

What do you get for this premium? First, a much nicer annual yield: 8% on the bond, *vs.* 0.7% on the stock. On that score alone the bond would pay for itself in a matter of months. But the $50 also buys you some insurance. If the stock collapses, the bond will still have value as a fixed-income security. Minus the conversion feature, it would be worth about $750, according to *Value Line Options & Convertibles*. Doesn't this mean the convertible is a steal? Not necessarily. Oak, an electronic parts manufacturer and cable-television operator, may be overpriced at 17 times earnings.

Still, convertibles can help an individual investor maximize his profits. After picking a stock, advises Wikler, look for a convertible equivalent before placing your buy order. Sometimes the convertible is hard to find. Rothschild, for example, has been buying Chieftain Development, a Canadian oil producer, via its convertible preferred, which has no conversion premium but sports a 1.8% yield advantage. The common is traded on the American Exchange, but the convertible is available only in Canada.

Not all convertible securities trade near their common stock value. The other extreme is a bond so far out of the money that it behaves like a fixed-income investment. First Pennsylvania 5% bonds of 1993 were quoted recently at $395 per $1,000 bond, for a 17.4% yield to maturity—assuming the bank survives until then. That's only $15 more than the bond would be worth without the conversion privilege. The bond is convertible into 23¼ shares of First Penn common, worth all of $110 currently. Rothschild doesn't bother with long shots like that, for the same reason that he shuns straight long-term bonds.

There is , of course, a tradeoff: The lower the conversion premium, the less protection against a drop in the stock price, but the better protection—or so Rothschild thinks—against inflation. That's why, when he buys convertibles today, Stanford Rothschild is more interested in finding an attractive way to acquire stock in companies he likes than he is in locking up high long-term yields. For the careful shopper, he believes, bargains abound. ■

Folks like Arco, Socal and Sohio now own over half of the U.S.' copper reserves. Is their diversification strategy a plan to buy and invest—or to buy and hold?

Mixing oil and copper

By Carol E. Curtis

SINCE 1977 Atlantic Richfield has owned Anaconda. Sohio will pay $1.77 billion for Kennecott. Socal offered $4 billion to expand its stake in Amax.

Big oil, in short, is paying big bucks to buy into copper. Even though reams of copy have been written about each of these specific moves, few analysts have assessed their broader significance. There are ten major copper producers that hold nearly all U.S. reserves, and oil companies now own or have major interests in six of them. Asarco, Newmont Mining and Phelps Dodge—the remaining independents—are all tempting takeover targets. The oil industry already controls over half of domestic copper resources and 55% of current production, up from 34% just three years ago. Should Socal ever renew its bid for Amax and win the takeover fight, this would rise to 63%—far larger than the oil industry's current 25% share of coal production.

Part of the reason for this march into metal is the fact that buyers spotted bargains—and had the cash to snap them up. "The mining companies were strapped financially, and oil companies bought capacity in place more cheaply than they could build it themselves," says Robert Lesemann, a market analyst with Commodities Research Unit. "They got the assets quite cheap."

In the biggest current acquisition, for example, Sohio acquired Kennecott's 375,000 metric tons of annual production capacity for $1.77 billion. For Sohio to build instead of buy, it would require some $3 billion at current costs of $7,500 to $8,000 per ton of capacity. Similarly, Arco bought Anaconda for $700 million, much less than it would have cost to enter the copper business on its own.

Charles Barber of Asarco
Fighting off submersion in oil.

Copper capacity, however, was cheap for a reason. For the moment, of course, copper prices are 80 cents to 85 cents per pound, and the industry's two biggest markets—automobiles and construction—are in the doldrums. Beyond that, there is the massive financial burden of complying with recent environmental regulations. The industry has spent $2 billion over the last 12 years on air-pollution-control equipment alone, and more money will be required. It still costs Asarco, for example, $50 million a year to control pollution. As a result of these expenses, building of

Tips from CPT on what to look for in a word processor

CPT offers a plain English explanation of exactly what word processing is, and some helpful pointers on how to choose from over 70 makes.

Word processing is simply a faster, easier, less expensive way to *type*.

With a modern word processor (such as the CPT 8000, right), you type on a *screen* instead of paper.

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Feature	CPT 8000		Brand "B"		Brand "C"		Brand "D"	
	YES	NO	YES	NO	YES	NO	YES	NO
Black-on-white full-page screen	✓							
Easily expanded with software packages	✓							
Standard keyboard and plain English commands	✓							
Automatic hyphenation	✓							
Dual disk drives and standard 120-page disks	✓							
Simultaneous input/output	✓							
Comprehensive training and local dealer support	✓							

Things to look for

Your search for the right word processor will be greatly simplified if you begin with these basics:

1. Don't buy too little—or too much—word processor. Least expensive are "intelligent typewriters," with very limited functions. At the other end of the scale are expensive shared systems.

Most popular by far are the "standalone" models. The CPT 8000, for example, fits easily on a desk top, yet has nearly all the automated features of even the largest systems.

2. Look for a full-page screen with a clear image. The full-size, black-on-white screen is a major feature of the CPT 8000. Some competitive models have only a partial-page display, and a green-on-green computer-like screen.

3. Be sure the word processor you select is easy to use. Look for things like a standard keyboard, and plain English commands. The CPT 8000 is so easy to learn, most secretaries will be turning out actual work after a short period of instruction.

4. Plan for your needs. It is tempting to use your word processor as a "fancy typewriter" just because your procedures are set up that way. However, a relatively new feature, called "software programming," can enhance your word processor so it can perform many other office tasks.

The CPT 8000, for instance, can also be used to prepare your office payrolls, keep ledgers, handle inventory and bookkeeping, and more. Be sure the word processor you choose has this important feature.

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FS-8

new facilities has been deferred. "How are you going to make the investment, maintain the cash flow and make the thing pay?" asks one copper expert.

Enter big oil, with its hoard of cash. A potent argument in favor of oil-and-copper mergers is that the energy giants bring the financial muscle for massive capital expenditures. Says Geoffrey Croome of Commodities Research Unit, "Copper has become an incredibly expensive business, and oil offers financial security. Companies can ride out the downturns better." Croome, in fact, worries that the oil industry will overinvest in capacity, aggravating production surpluses.

Perhaps. But there are indications that oilmen can wield some very sharp pencils. In September, for example, Anaconda decided to close a Montana smelter capable of refining 9% of all U.S. copper. Anaconda's Arco management opted against spending $400 million to meet clean air rules, and as a result Montana copper concentrate is being shipped to Japan for refining (FORBES, *Mar. 2, 1981*).

Critics of oil company involvement in copper point out that Anaconda is the only copper producer ever to close down a smelter rather than upgrade it. Arco made its decision, of course, because the current return on its money could be maximized elsewhere—and a pure copper company might have acted otherwise.

For example, Asarco Chairman Charles Barber says his company will put up some $135 million to correct a similar problem at its smelter in Arizona. Phelps Dodge, another independent, is reluctantly spending $195 million on its two Arizona smelters. Says Barber, "Experience convinced us that we were better off dredging up the additional funds. But if other oil-owned companies follow the path of Anaconda, and more production is exported, we won't control our own copper supply." That, of course, is a political decision, and in view of current proposals to increase stockpiles of metals like cobalt and titanium, the Reagan Administration might be surprisingly receptive to proposals to protect domestic producers.

Unless the government intervenes, however, new money won't necessarily flow to copper, even though copper needs it and the oil industry has it. Simon Strauss, a copper expert, points out that when it comes to committing cash, big oil, with a large array of energy-related alternatives, may well evaluate copper projects even more critically than do the copper companies. In that case, he argues, U.S. copper processing capacity could decline, putting the U.S. at a disadvantage in a strategic metal.

Apart from what oil will do for copper, of course, there is also the question of what copper will do for oil. In the main mergers so far, copper's average return on investment has been disappointing. Right after Sohio announced its bid for Kennecott, its price dropped by $3 a share.

One critic looks at the situation this way: He says that at least $1 billion will be required to shape up Kennecott's copper properties. But if Sohio had taken its $2.5 billion cash flow and socked it away in 20- or 30-year instruments, he calculates it would be getting $375 million in annual income. Not for at least three decades does he see Kennecott making that kind of money.

Still, oil companies are the longest of long-term investors. At the same time, their need to deploy cash is enormous. Petroleum projects eat up capital largely in the development phase—and for the moment there are no North Seas or North Slopes on the horizon.

What's more, the industry has a dismal diversification record in areas where active management is essential. Look at Mobil's troubles with Montgomery Ward and the disarray of Exxon's office products operations. Wiser, perhaps, to sink billions into metal—safely underground in the western U.S.—and to wait patiently for prices to rise and the economics of mining to improve. Copper companies can't afford that luxury—which may be the reason they don't like their rich new competitors. ■

Oil's big stake in copper

A Kennecott mine in Utah

The depressed copper industry has found a friend in big oil companies. Or has it? While over half of all U.S. copper capacity is owned by oil, it is unclear whether either side got a good deal.

Oil company	Copper company	Production capacity*	Percent of U.S. total
Atlantic Richfield	Anaconda	203,000	11%
British Petroleum	Selection Trust	7,000	0.4
Cities Service	Cities Service	90,000	5
Louisiana Land & Exploration	Copper Range	45,000	2
Pennzoil	Duval	126,000	7
Standard Oil of California	Amax (20%)	16,500	1
Standard Oil Indiana	Cyprus Mines	81,000	4
Standard Oil Ohio	Kennecott	375,000	20
Union Oil of California	Cyprus Pima	5,000	0.3

* Annual U.S. production capacity in metric tons per year.

Source: Commodities Research Unit Ltd.

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Their secret? Teamwork. Each of the team members understood the demands of cement plant construction, the complexities of large international projects and the discipline of PTSG's cooperative methods.

Nothing illustrates this better than the estimated and actual schedules. They match almost perfectly.

And that's no mean feat when you consider that the project consumed 10,000 tons of structural steel, 16 miles of piping and 175,000 cubic yards of concrete. It took 50 freighters to deliver the 85,000 tons of production equipment, materials and supplies.

Each team member also understood that every cement plant is a one-of-a-kind. Engineering and design—done by two other Morrison-Knudsen subsidiaries, The H. K Ferguson Company and International Engineering Company—and procurement procedures all reflected this fact.

Performance specs were drawn and put out to bid. Responses were presented to PTSG management, with recommendations. Choices were made, based on cost effectiveness and technical advantages. Detailed specs were written, and the equipment was ordered "a la carte."

"Just like you'd build a component stereo system," says Martin Anderson, MKI Project Manager, a 24-year veteran who'd worked on the original PTSG plant back in 1955. For Martin, going back to Java was like "coming home."

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The Up-And-Comers

im (left) *and Comer Cottrell of Pro-Line Corp.*
"Taking care of business" comes first.

By Toni Mack

I'M NOT A DREAMER," says Comer Cottrell in his careful, soft-spoken way. "I have to deal with facts, not speculation." His brother Jim, executive vice president of Dallas-based Pro-Line Corp., is the impetuous one, a marketing whiz who rushes into niches where others fear to tread, and breeds racehorses in his spare time. Together they make an apt mix of caution and daring in a thriving market of hair products aimed at blacks. Sales have jumped from $86,000 to $22.6 million in just 11 years. Last year, Pro-Line's $550,000 in profits returned no less than 141% on equity, bringing the average over the past five years to 82%. While Jim strains for faster growth, Comer insists upon paying vendors on time to ensure credit integrity, never missing a discount, never putting his capital at undue risk.

Growing up in Mobile, Ala., Comer used to accompany his father, a life insurance salesman, on calls to prospects. "I'd see him give them a piece of paper and a promise to pay them something when they died, and then he'd walk away with their cash," recalls Comer. "It fascinated me." Soon he was peddling anything he could get with a 3-cent stamp—seeds, cosmetics, Christmas cards. "While other boys were out chasing baseballs," he says, "I'd be chasing customers."

By 1970 he had chased customers in businesses ranging from a chain of taverns to an engineering-publications company—trades for which he was unsuited by temperament and training—and finally as a merchandise manager for Sears, Roebuck in Los Angeles. There, a friend who worked for a black cosmetics company began visiting Comer's office every day, trying to persuade him to get into the business. As his friend had no capital, only a concept, Comer wasn't convinced until he saw a *Wall Street Journal* article about a similar company. "I looked at the management," he says, "and I knew darn well I could do a better job. They were satisfying a social need, but they weren't really in business."

So Comer Cottrell took the plunge. He left Sears, borrowed a typewriter from his daughter and took $600 from savings. Then he set about getting a market lined up. He recalled that as an Air Force PX manager on Okinawa during the Korean War he couldn't find grooming aids to stock for black servicemen. By 1970 such aids were on the market, but PX managers ignored them. Cottrell called on a black U.S.

congressman from California, Gus Hawkins, asking him to open doors at the Department of Defense. Soon the pressure was on for military bases to stock black-oriented products.

How does a company with just $600 in capital come up with a product? "I know this about marketing," Comer replies emphatically: "Everybody is looking for a market for their products. So I went to some local chemical companies, and they were willing to develop products for us, knowing that they could lock us in by using their proprietary chemicals." He shakes his head, as though mystified that anyone could miss such a fundamental point. "I've seen a lot of small businessmen try to get government loans to hire expensive chemists and build expensive labs, when other companies already have millions invested in these things. They don't try to use existing resources. Of course, it meant we couldn't really shop around, and as we grew, we never got a volume discount. But that didn't concern me much. After all, they put us in business!"

But what about working capital? Comer Cottrell got that from his suppliers also. He found a manufacturer who would make a 90-day supply on one run, with 90 days' credit. That meant he could pick up a week's supply at a time, sell it for cash and still have 90 days to pay for it. It gave him immediate cash flow.

Still, Comer couldn't afford advertising. So he had to rely on point-of-sale persuasion. Since black leather jackets were popular among blacks at the time, he wrapped each can of his first product, an oil-based spray for the natural Afro style, in black leather stamped with gold foil. At about this time brother Jim joined up. Jim's contribution was immediate: He had noticed that the bestselling spray had a strawberry fragrance, so he suggested a similar one for theirs. "In cosmetics, you have to appeal to the senses," explains Jim Cottrell. "When people saw that can, they had to touch it. Their next reaction was to spray it, and then smell it. Then they'd want to try it."

Pro-Line Oil Sheen shortly outstripped its competitor, Magnificent Brothers, wherever Oil Sheen was sold, and the Cottrells followed up with a detangling spray and a spray to hold hair in place. Their first year's sales were $86,000, 72% of it from $125-a-shipment sales to the military. To sell the rest to hair stylists Jim took to the road in a van with a mattress in back. By 1973 the military market represented only 60% of their $365,000 in sales, and Pro-Line was strong enough to pay the Cottrells a $25,000 bonus for equity in a $140,000, 11,000-square-foot manufacturing plant outside Los Angeles.

"We used our first three products to set up our distribution network," says Comer. "After that, each new product gave us more sales in the existing network, plus added distribution." He estimates that Pro-Line is carried by 90% of potential U.S. distribution for the $750 million black toiletries market. The military is now only 5% of sales, with 80% coming from chains like Walgreens and Woolworth's.

In the meantime, Jim learned how to tailor new products for his market. It was easier than he thought, he claims. "You don't have to be as smart in the cosmetics industry as you do in others. There's such a tremendous markup—at least 50%—that you can afford to make mistakes and overcome them. The main point is not to try to shove your mistakes down your distributors' throats."

Packaging the Curly Kit
Pro-Line's biggest coup yet.

Jim learned from his mistakes. In 1972, for example, he tried a balsam conditioner and a line of shampoos. The products didn't lose money but never did very well. Jim soon found out why: too much competition from major cosmetics companies with far larger advertising budgets.

The general cosmetics market will never be available to Pro-Line, in Jim's opinion. "In America today a black man could introduce a cure for the common cold, and if the general market realized the origin of it, they'd still be telling their kids to take some aspirin and go to bed," he says. Making a virtue of necessity, he tries to strengthen his support among blacks by putting at the bottom of most ads, "A Black Manufacturer That Understands the Hair Care Needs of Black Consumers."

Even so, Pro-Line faces stiff competition, and Jim Cottrell keeps searching for neglected niches. In 1977, for example, Revlon and Johnson Products, another black cosmetics firm, were waging an expensive war over the relaxer market. But Jim spotted an unnoticed segment of the market: No one had a relaxer for children. Pro-Line rushed out a product that had the same formula as a mild adult relaxer, but Jim called it the Kiddie Kit and adorned the package with bright colors, balloons and children playing. The item added $1 million, or 16% of sales, in its first year.

Its success gave Jim the confidence to pull his biggest coup. In March 1980, with no test marketing at all, he introduced the Curly Kit, the first do-it-yourself curling process for blacks and the biggest single product ever to hit the black cosmetics market. In eight months it produced $10.6 million—almost half—of 1980 sales.

Why had competitors missed the market? Jim heard at trade shows that no one, Revlon included, believed such a home permanent could be made. Although there was a permanent for blacks in use at salons—at a $60-to-$125 cost to the customer—no one thought the long, involved process could be scaled down for home use.

Jim was undaunted. "I don't have enough respect for hair stylists to think they're the only ones who can do this kind of thing," he says.

So Jim hired two chemists away from the company that made the salon process, and together they isolated the problem point for do-it-yourselfers: the straightening step. "Blacks' hair is kinky, not curly," he explains, "and it has to be straightened before it can be curled." The problem was, people left the straightener on too long, which destroyed the hair, or not long enough, which made the curling solution less effective. So Jim suggested leaving out the straightener altogether. Eureka! His chemists found that by increasing the concentration of the curling chemical, they could make kinky hair go straight and then curly in one step. "We took the mystery out of it, and that's the main point for the consumer," says Jim.

Expecting competition and knowing they couldn't afford to flood the market, the Cottrells priced their kits at $7.50, when they could have sold them initially for $15. "Nobody would dare try to undersell us at that price,"

says Comer. Adds Jim with a satisfied smile: "One of our biggest competitors has come out with a kit at $11.95. It's not doing too well."

While Jim was looking for new products, Comer was searching for new markets. He first considered going overseas in 1976, when Los Angeles Mayor Tom Bradley invited him to meet Kenya's ambassador to the U.S. Comer's wife, Isabell, hit it off famously with the ambassador's wife and pretty soon Pro-Line was invited to set up a joint venture in Kenya with the Kenyan government.

Here again Comer Cottrell, who runs the 14th-largest black-owned business in the country, is happy to trade on his blackness. Why not, if it means getting to meet dignitaries and U.S. Presidents like Jimmy Carter and Ronald Reagan? "My meeting the President is no different from the chairman of ITT's meeting him," he explains. "In the black community, I'm on the same level."

To assess the Kenyan market, Comer paid $5,000 to a consultant with a Ph.D. in international marketing. "Great potential," said the consultant. But Comer just couldn't bring himself to put up the $200,000 required without seeing the market for himself. He was dismayed at what he saw: a population almost wholly unaccustomed to hair care products. To develop the market, he would have had to mount an expensive educational campaign—something Pro-Line, with sales of $4 million, wasn't equipped to do in 1976.

But the idea was planted, and in 1979, on a trip to Africa with Mayor Bradley, Comer Cottrell took another look. This time he liked what he saw. Nigeria, he found, was wealthy and populous, so he lent $100,000 to his chief chemist, a native Nigerian, to buy a license to make Pro-Line products in Lagos. Then he made a trip to the Caribbean, found a receptive market and sold a license to a businessman in Trinidad. Now he's negotiating to sell a license to the daughter of Kenya's president. Kenya? "They're more sophisticated now," he explains, "and by selling a license, instead of building a plant myself, I put nothing at risk—but I get 5% of any sales they make."

The market that took him by surprise was the Oriental one. "I never dreamed of that," says Comer. "Some Taiwanese businessmen came to us and said they could sell Pro-Line there." He was quick to see the potential. Since Orientals' hair, like blacks', has many layers (which make it coarse), it responds to oil-based products. But he was characteristically

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wary. "They frightened me," he admits. "I thought they were out to rip us off and counterfeit our products." He was right to be frightened: The Taiwanese had already test-marketed Pro-Line and applied for Pro-Line trademarks and copyrights. Comer made them assign the trademarks and copyrights to him in exchange for a license, and now he has gotten trademarks in every potential market.

Overseas sales aren't yet a big contributor—only 3.5% of sales last year—but Comer is preparing, in his methodical way, for the day when they will be.

Last December Comer moved Pro-Line's operations from Los Angeles to Dallas. Texas is where his biggest market is, followed closely by the Washington-Baltimore area. Most of Pro-Line's raw materials, though, come from the East Coast, which meant that shipping them out West

"There's such a markup in the cosmetics industry that you can afford to make mistakes and overcome them."

for packaging, then back to the markets of the South, represented wasted cost. Flush with cash from the Curly Kit, Comer set up a new $4 million, 127,000-square-foot building in Dallas that also gives him the ability to package Pro-Line's products in-house rather than paying others to do it. All told, the move may save him $1.7 million.

Comer has grown civic-minded these days, spending his spare time talking to black junior high and high school students, encouraging them to go into business. His key advice: Read the business press. Blacks' biggest stumbling block in business, he believes, is lack of familiarity with its terms and concepts. "I'm trying to teach my three-year-old son now," he says. "He's got a stock portfolio, and I tell him all about his assets. Sometimes he'll tell guests, 'I've got good assets,' and they'll think he's saying, well. . . . Black adults are so unused to the language of business."

And for Pro-Line's future? He's considering taking the company public, perhaps next year, to fund further growth. Debt is still anathema to him, and his pride at having a black-owned company prevents him from selling out, though some, like Bristol-Myers, have tried to buy. "Give us the length of time Procter & Gamble and Lever Brothers have been in business and we'll be there too," says Comer Cottrell. "We've got patience." ■

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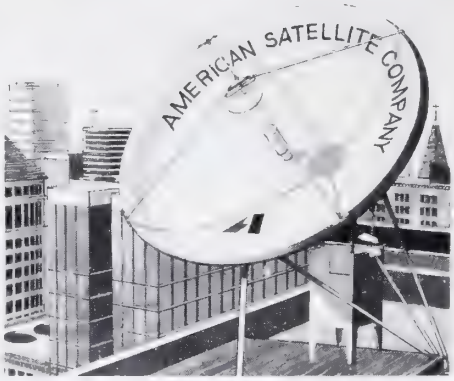

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With bracket creep and inflation making raises vanish, corporations are now heaping on the fringe benefits, down into even middle-management ranks. Some are negotiable.

More sweets to the suite

By William G. Flanagan

A RECENT HEARING in Washington on the subject of "perks" and fringe benefits was so quiet as to be remarkable. No fulminating against three-martini lunches. No railing against fat cats in chauffeur-driven limos. Instead, the House Ways & Means Subcommittee on Select Revenue Measures quietly explored whether discount travel for airlines employees should be taxed. And whether relatives of faculty members attending school should pay taxes on the value of their free education.

Far more touchy corporate perks—such as interest-free loans and financial counseling—weren't even brought up.

The moods of Congress and the IRS regarding company-paid fringes have clearly mellowed. When new tax regulations are issued in July, few significant changes in the area of corporate perks are expected. (And any new rules will take effect in January 1982, leaving lots of time for revision.) Recipients of corporate internal largesse may have to pay some taxes on the value of what's received—personal use of a company car, for example. But that will hardly sound the death knell for corporate benefits.

Personal financial planners may offer the most valuable perk of all

Indeed, the perks that executives value most are clearly on the upswing. On the other hand, the perks that most irritate the public, IRS and Congress are already fading. Such things as reimbursements for entertaining at home, club memberships, theater and stadium tickets and use of the company lodge are generally on the decline.

According to a recent survey by the American Management Associations' William Lyhne, fewer than 8% of U.S. corporations have home entertainment allowances. Fewer than 25% now pick up the cost of theater or sports tickets. Only 1.9% will allow their executives free use of resort facilities. Even when offered, those perks may be high on status value, available only to a precious few, but are small potatoes in terms of cold cash.

When they think about perks these days, even top executives have more urgent things on their minds—decidedly practical things like use of a company car and company-paid financial planning and legal help. The reason, of course, is inflation—and the bracket creep that comes with it. While executives at the very top of the heap may have little to complain about *(see p. 114)*, the grumbling heard elsewhere in the executive suite is deafening. Consider these findings in a recent survey by Ernst & Whinney of 200 U.S. executives earning between $40,000 and $200,000 annually:

- Fifty-five percent of them believe that their standard of living will not improve in the next two years.
- Only 4% of the same executives thought they could outstrip inflation by working harder. Most responded that

Salaries for middle managers fell behind inflation in both 1979 and 1980, and are expected to do so again in 1981. Increases this year will average only 10% to 11%, meaning most will lose ground after accounting for taxes.

investing was the only way to make real progress.

• Only 22% of executives interviewed had confidence enough in their investments to think they would wind up outstripping inflation.

As any siren knows, anyone who is unhappy is an easy mark. What has corporate top executives worried is that their own best people are often being lured away not only by fatter salaries but by bonuses, perks and retirement and profit-sharing schemes that offer at least temporary relief from treadmill pain—the ache that comes from working harder to take home less. And less it is they have been taking home. While someone with a gross salary of $27,000 a year might find it hard to sympathize with someone earning $55,000—more than twice as much—in some cities that figure shrinks to peanuts after taxes. One divorced New York advertising executive, for example, is paid twice monthly the sum of $2,291.67. His gross pay is $55,000 a year. But after federal tax ($735.54), state tax ($192.29), city tax ($77.49), social security ($152.38) and $2.90 for charity, his net shrinks to $1,131.07. That's just 49.4% of his salary, or about $27,000.

According to Paul J. Muller of Runzheimer & Co., Inc., middle management salary increases fell behind inflation in both 1979 and 1980. And it's expected that they will do so again this year. The majority of U.S. companies have scheduled a 10%-to-11% merit increase for their managerial employees in 1981, which may just about equal the inflation rate but fall far below it after taxes.

Muller points out that while many blue-collar workers—about 10% of the total work force—are protected against inflation through cost-of-living adjustment clauses, "managerial employees generally lack such protection." Indeed, after taxes, the amount of money that managers in the $25,000-to-$100,000 income range have to earn just to stay even with a 12% inflation rate is well beyond what most managers will receive this year *(see table above)*.

One way that many companies are trying to keep their up-and-comers and valued senior executives happy is with a bigger breadbasket of perquisites and other fringe benefits. The largest firms that specialize in drawing up executive compensation packages—Cresap, McCormick and Paget; Towers Perrin, Forster & Crosby; Booz, Allen & Hamilton Inc.; Hay Associates; Hewitt Associates; and Sibson & Co., as well as the major accounting firms—are busier than ever advising their clients.

Some fringes—stock options, performance plans, hefty insurance coverage and deferred compensation, for example—are offered to only a handful of top executives, usually with the approval of the board of directors. But other fringes are within reach of a much greater proportion of people who go to the office every day.

You might be in a position to negotiate for some additional perks where you are now, and certainly should bring such requests to the bargaining table with a new employer. Here is a list of some of the more common perks, their relative availability and where the trends point.

Executive cars. Transportation has become far more expensive for all of us, hence the value of a company car as a perk has soared. And more companies than ever are making them available. In 1974, for example, a Runzheimer & Co. survey of some 1,126 U.S. businesses showed that 67% furnished executive cars. This year the figure has risen to 77%. And up to 60 executives per company are given the cars—at considerable expense to the company. It's estimated that an intermediate car, driven 15,000 miles per year, costs the company $4,500 annually. And while about 50% of the companies surveyed had some way of charging for personal use of the cars, the value to the user is still substantial, a lot more than a couple of box seats to watch Fernando Valenzuela of the Los Angeles Dodgers pitch. In about half the cases where the employee is "charged" for his personal use of the car, it is simply added to his W-2 form at year-end.

Free legal counseling is another perk gaining favor in the executive suite, perhaps in response to the prepaid legal counseling services won in some labor negotiations for blue-collar employees. In 1979, according to the American Management Associations, only 12.6% of the companies it surveyed provided it. Now 16% of companies do. The average value of the counseling is $1,617, which includes such things as will preparation and estate and tax planning. A few companies offer broad-based coverage for everything short of a court appearance.

Jump-ship bonuses. In such bustling, rich industries as oil drilling, getting cash on the barrelhead as an incentive to change jobs is almost commonplace these days. But it's happening more often elsewhere, too, according to Barry Nathanson, president of Richards Consultants, Ltd., an

The raise you need to stay even

Here are the raises you need over your gross salary so that your net, after taxes, rises 12% to keep pace with 12% inflation. Figures assume a family of four, one breadwinner, and 15% in itemized deductions.

Gross salary	Increase needed	New gross salary
$ 25,000	$ 3,401	$ 28,401
30,000	4,187	34,187
35,000	5,029	40,029
40,000	5,976	45,976
45,000	6,768	51,768
50,000	7,611	57,611
55,000	8,660	63,660
60,000	9,260	69,260
65,000	9,915	74,915
70,000	10,593	80,593
75,000	11,217	86,217
80,000	11,818	91,818
85,000	12,417	97,417
90,000	13,028	103,028
95,000	13,617	108,617
100,000	14,217	114,217

Source: Ernst & Whinney

About 77% of major companies now provide company cars for up to 60 executives per company. The cost is high—about $4,500 per year—but it is often the clincher in attracting the right kind of talent.

executive search firm. "Cash payments of up to 15% of base compensation are now being given to people in the $40,000-to-$50,000 salary range," he reports. "And that bonus has nothing to do with other compensation. It's basically a goodwill gesture."

Relocation expenses. Don't confuse this with a jump-ship bonus. A current or new employer will often gild the lily to get you to relocate. It's one of the stickiest problems corporations face today because of high mortgage rates and two-income families. Help with selling your old house and buying a new one—and some sort of relief on the mortgage—is the least you can expect.

If you jump ship, you might be able to pry loose a fat cash bonus

Nowadays, companies will often subsidize your mortgage payments by paying you a differential based on your old and current interest rates. Three to five years of such assistance is common.

If you are being moved, don't hesitate to ask for what might seem outrageous. One executive, for example, talked his company into buying the house he wanted to occupy, then selling it to him for 80% of what it paid. When the house is ultimately sold, he will get 80% of the appreciation, and the company the remaining 20%.

At the very minimum your employer should agree to buy your current home or offer you a bridge loan when you're between houses. In a recent survey, Russell Reynolds Associates found that over half the companies it contacted are now willing to pay home-sale expenses, offer temporary loans and subsidize mortgages—these, on top of higher salaries offered to employees who relocate.

Low-interest loans, or loans at no interest at all, are also hot these days. You might not be able to swing the terms that Richard M. Bressler did when moving from Atlantic Richfield to the presidency of Burlington Northern, of course. Bressler's compensation package included a $450,000 unsecured loan at zero interest. But loans to other employees at less than the going rate are hardly rare. According to Ernst & Whinney's Richard Reichler, many companies now offer loans at low interest for the college expenses of offspring.

Under existing tax rules, corporations can set up foundations whose sole purpose is to provide loans and grants to employees for their dependents' education. And companies are establishing such trusts in increasing numbers, especially as government loans and grants for education dry up. General Electric, for one, permits employees and their children in college to borrow up to $2,500 a year at only 11.5% interest or less in addition to any government loans they may have.

Even small firms can find ways of reimbursing employees faced with soaring tuition bills, and not just for college. One New York salesman, for example, routinely submits bogus expense reports—with his employer's knowledge and consent—that equal his two sons' high school tuition payments.

Financial planning. This is perhaps the fastest-growing perk of all, and, in light of the fact that so many executives believe that investing is the only way to outstrip inflation, it ought to be. An investment and tax strategy is a big priority even for younger executives at the low end of the pay scale. According to the American Management Association, financial planning is now offered by 33% of the companies it recently surveyed in its biannual study of perks. Only two years ago the figure was 23.5%.

Financial planners who specialize in handling corporate executives are doing land-office business, at a cost to the company of $5,000 to $7,000 per head for the initial session. Beyond the basics of proper filing of income-tax returns, even the financially sophisticated executive stands to benefit handsomely from having professionals rearrange his financial affairs. One senior vice president, for example, who had been squirreling cash in a money market fund for his kids' college expenses, was urged to open so-called Clifford Trusts for them. That way the cash accumulates virtually tax-free. He was also advised to take out low-interest loans from his company once the children actually started college. As a result of these and other

Company-paid financial planning can result in sizable cuts in estate and income taxes, worth far more than periodic raises. And a good planner will steer you clear of cockamamy tax shelters and other bum investments.

tactics, the executive reduced his tax bill $8,000 in the first year alone.

According to John Breyo, senior vice president with Ayco Corp., an Albany-based financial counseling firm that caters to the pinstripe set, there are several common failings Ayco finds when it combs through a client's financial bird's nest:

- Total disorganization. The tax records are in one place, the mortgage and will (if there is one) in another; the insurance forms yet someplace else; stock records scattered. "Too many of our clients don't even know where their vital records are," says Breyo.
- Lack of understanding of corporate fringes. The value of some of these can be enormous. Many companies offer savings plans, for example, which allow *all* employees to set aside a given portion of their salary each year—say, 10%. The company will match that amount, and the aggregate appreciates tax-free. When the employee cashes in, the distribution is given favorable tax treatment. Yet, surprisingly often, executives who should know better fail to use them. Insurance is another corporate fringe overlooked, says Breyo. Often, it is possible to insure the spouse and offspring at what amounts to bargain-basement rates. Yet many executives simply don't take time to check into it.
- Incentives. Again, surprisingly often, executives simply don't understand how stock options, stock appreciation rights, performance plans and other incentives available to them really work. One common mistake: poor timing on stock options, which can mean substantial tax penalties.
- Tax shelters. Blame the cocktail parties for this one. "We look over tax shelters with a far more critical eye than most investors," says Breyo. One executive, for example, was talked out of an equipment-leasing scheme once it was made clear to him that the income he would ultimately receive would be taxed at 70%—which would far outweigh any tax advantage for going into the shelter.
- Lack of continuity in planning. Estate and retiremen planning is a sometime affair for many managers. A goo financial planner will help set up such plans in light of th employee's income, age, family responsibilities, tax situa tion, etc. One executive, for example, had several hundre thousand dollars' worth of life insurance paid for by th company. But the policy was in his name, meaning tha upon his death the proceeds from the policy would wind u in his estate where it could be taxed as highly as 70%. financial planner had him set up a trust, and had the polic payable to the trust, thereby keeping the payment out his estate and out of his wife's estate.

Indeed, financial planning has become the "fringe o top" of other fringe benefits that helps make those othe benefits count the most. And the cost of such a service, on an individual basis, could easily exceed $10,000.

Expenses for entertaining at home—a sore point with the IRS—will be harder to come by

As fringe benefits become more important to more an more managers, of course, the IRS can be expected to g more and more eager to tax those perks. But the curre Administration does not appear very sympathetic to th IRS' wishes. Regulations proposed in the waning days Carter's tenure, for example, have not found too muc support.

Indeed, given the current mood of Congress, Willia Cash of Cresap, McCormick and Paget predicts an in proved tax climate for capital gains. Cash even foresees th return of what used to be the lushest perk of them all—th qualified stock option, which allows key executives to bu company stock at bargain-basement prices—provided th stock rises.

Such a perk might go a long way to make those less tha optimistic executives think better of their chances beating inflation as well as tax-bracket creep through equ ty investing. ■

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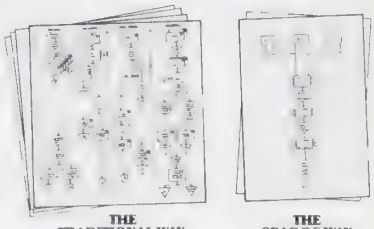

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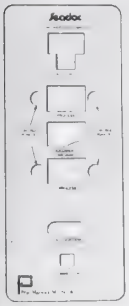

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The disappearance of some well-known names from the ranks of the best-paid chief executives bespeaks neither retirement nor a sudden attack of stinginess, but rather a change in the ground rules. Despite this, a rough kind of justice is evident.

How much does the boss make?

THE MOST STRIKING THING about this year's list of the highest-paid executives running the nation's largest corporations is the number of familiar names that aren't there. Missing from this year's top ten, for example, is Steven J. Ross of Warner Communications, who ranked number two a year ago. Ross did all right in 1980, mind you, earning a total of $2,273,688. But handsome as it was, that sum was only enough to rank him 18th.

Missing too, among others, from last year's top ten are John Swearingen of Standard Oil (Indiana) and Rawleigh Warner Jr. of Mobil, who had ranked 4th and 5th, respectively, and who this year rank 11th and 34th.

All told, eight of last year's top ten are off the list this year. One of them, Howard Keck of Superior Oil, retired. The other, Frank Rosenfelt of Metro-Goldwyn-Mayer, had his company spun off under him, resulting in pieces too small to make our lists.

The absence of the others bespeaks no sudden stinginess on the part of compensation committees. Rather, it results largely from the absence of big stock gains reported last year *(see definitions)*. Nine of this year's top ten CEOs reached that level because of the exercise of stock options or stock appreciation rights. Warner of Mobil, having exercised no options in 1980, did not make it into the top ten this year. Last year's top ten averaged $2.8 million in total remuneration *vs.* $4.1 million this year.

When it comes to money, no reporting philosophy can be problem-free. Compensation earned by past performance but paid in 1980 *is* included. And, as in past years, our tables also continue to show accruals made on company books for long-term performance plans and under employment agreements that call for payments if and when certain conditions are met. Even though they have been reported, chief executives may not get these contingent amounts if, say, company earnings do not meet standards or the boss quits to join a competitor.

A rough kind of justice continues to be evident in these tables. Ranked are the chief executives of 818 companies—those companies that made one or more of the FORBES lists of the 500 largest companies ranked by sales, profits, assets and stock market value. The median salary and bonus paid to the boss of a company with sales between $500 million and $1 billion was $300,000, 10% higher than last year's median; between $1 billion and $5 billion it was $402,000, 6% higher than last year; over $5 billion it was $589,000, 9% higher. The median salary and bonus for all companies is $351,945.

As for the preferred route to the top dollar, there was a clear advantage among these 818 chief executive officers to those who came up through finance (134) and banking (101). Far behind were those who came up through marketing (57) and, even further behind, sales (28).

Definitions

The Securities & Exchange Commission's latest requirements for proxy statements are the basis for the numbers in the tables that follow.

Salary and bonus

Includes—in addition to salary and cash bonuses—directors' fees, commissions and payments made on long-term incentive plans.

Benefits

Includes cash-equivalent forms of compensation such as company-paid life insurance premiums or club dues, use of company car or plane and other fringe benefits; also stock bonus awards, thrift plan contributions and restricted stock awards vested or released from restrictions in 1980.

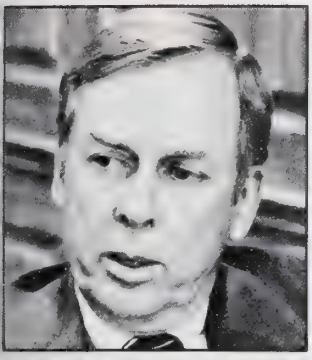
Contingent remuneration

Includes the amounts expensed for deferred compensation agreements and accruals (or credits) under performance-related long-term incentive plans.

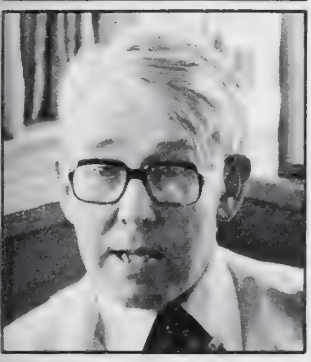
Stock gains

Includes net value realized in shares or cash from the *exercise* of stock options and/or stock appreciation rights (SARs) granted in prior years. (In contrast to previous years, this survey does not reflect the accruals for stock appreciation rights unexercised.)

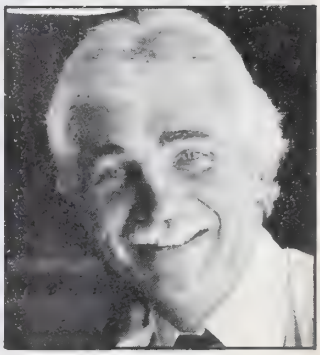
THE TOP TEN



1. Thomas B. Pickens Jr. Mesa Petroleum		2. George T. Scharffenberger City Investing
$ 415,972	Salary & bonus	$ 569,000
169,145	Benefits	11,839
45,165	Contingent	120,941
7,235,549	Stock gains	4,464,112
$7,865,831	Total	**$5,165,892**



3. Robert A. Charpie Cabot		4. Walter J. Sanders III Advanced Micro Devices
$ 799,000	Salary & Bonus	$ 538,246
1,222,533	Benefits	27,907
1,376,048	Contingent	8,106
1,308,625	Stock gains	3,706,560
$4,706,206	Total	**$4,280,819**



5. Milton F. Rosenthal Engelhard Minerals		6. Clifton C. Garvin Jr. Exxon
$1,825,000	Salary & Bonus	$1,043,431
476,592	Benefits	60,551
1,698,625	Contingent	227,564
—	Stock gains	2,016,437
$4,000,217	Total	**$3,347,983**

7. Fred L. Hartley Union Oil California		8. Ray C. Adam NL Industries
$ 875,767	Salary & Bonus	$ 662,225
370,387	Benefits	21,845
463,313	Contingent	247,483
1,419,441	Stock gains	2,161,500
$3,128,908	Total	**$3,093,053**

9. David S. Lewis General Dynamics		10. Robert Anderson Rockwell International
$ 455,173	Salary & Bonus	$ 865,000
8,875	Benefits	18,562
—	Contingent	919,900
2,556,746	Stock gains	1,163,531
$3,020,794	Total	**$2,966,993**

Note: Stock gains may have been previously reported as contingent remuneration

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bus backgr
303	Abbott Laboratories	Robert A Schoellhorn (52)	369	8	150	—	**527**	7	2	Philadelphia, Pa	Tech
410	ACF Industries	John F Burditt (63)	428	4	—	—	**432**	32	14	Newton Center, Mass	Fi
770	Adobe Oil & Gas	B J Pevehouse (56)	154	—	8	—	**161**	21	21	Ranger, Tex	Fo
4	Advanced Micro Devcs	Walter J Sanders III (45)	538	28	8	3,707	**4,281**	12	12	Chicago, Ill	Fo
227	Aetna Life & Cas	John H Filer (56)	588	21	—	—	**609**	22	8	New Haven, Conn	Insu
389	H F Ahmanson	William H Ahmanson (55)	375	18	52	—	**445**	31	12	Omaha, Neb	Administ
196	Air Prods & Chems	Edward Donley (59)	488	165	—	—	**653**	38	7	Highland Park, Mich	Tech
649	Akzona	Claude S Ramsey (56)	250	3	—	—	**253**	31	14	Asheville, NC	Administ
202	Alaska Interstate	O Charles Honig (62)	507	23	113	—	**642**	15	7	Dallas, Tex	Fo
167	Albertson's	Warren E McCain (55)	500	16	—	195	**711**	29	4	Logan, Kan	Oper
252	Alco Standard	Ray B Mundt (52)	441	9	7	121	**579**	11	1	Appleton, Wisc	Oper
489	Alexander & Alexander	John A Bogardus Jr (53)	243	7	—	119	**370**	30	2	New York, NY	Insu
386	Alexander & Baldwin	Robert J Pfeiffer (61)	359	10	—	78	**447**	21	1	Fiji Islands	Oper
596	Alleghany	Fred M Kirby (61)	285	—	—	—	**285**	23	14	Wilkes Barre, Pa	Inves
721	Allegheny Power	Charles B Finch (61)	198	6	—	—	**204**	27	9	New York, NY	
776	Allied Bancshares	Gerald H Smith (50)	131	21	—	—	**152**	22	9	Groveton, Tex	Ba
93	Allied Corp	Edward L Hennessey Jr (53)	693	61	137	—	**890**	2	2	Boston, Mass	Fi
92	Allied Stores	Thomas M Macioce (62)	650	120	128	—	**897**	21	9	New York, NY	
190	Allis-Chalmers	David C Scott (65)	423	55	182	—	**660**	12	12	Akron, Ohio	Tech
90	Alcoa	W H Krome George (63)	649	15	15	222	**902**	39	6	St Louis, Mo	Tech
129	AMAX	Pierre Gousseland (59)	765	41	—	—	**806**	32	4	France	Tech
398	Amdahl	Eugene R White (50)	390	7	43	—	**440**	6	1	Bangor, Me	Administ
720	Amerada Hess	Leon Hess (67)	200	—	5	—	**205**	48	8	Asbury Park, NJ	Fo
481	American Airlines	Albert V Casey (61)	372	2	—	—	**374**	7	7	Boston, Mass	Fi
722	American B & T Pa	Samuel A McCullough (42)	186	—	18	—	**204**	5	3	Pittsburgh, Pa	Ba
54	American Brands	[2]Robert K Heimann (62)	574	37	374	125	**1,109**	27	8	New York, NY	Mark
41	Amer Broadcasting	Leonard H Goldenson (75)	725	96	408	—	**1,229**	47	31	Scottdale, Pa	
547	American Can	William S Woodside (59)	314	7	—	—	**321**	31	1	Columbus, Ohio	Oper
381	American Cyanamid	Dr James G Affleck (58)	417	5	28	—	**450**	34	5	Yonkers, NY	Administ
577	American Elec Power	Willis S White Jr (54)	273	15	8	—	**295**	32	5	Portsmouth, Va	Tech
210	American Express	James D Robinson III (45)	587	26	18	—	**631**	10	4	Atlanta, Ga	Fi
665	American Fletcher	Frank E McKinney Jr (42)	238	1	—	—	**239**	13	8	Indianapolis, Ind	Ba
451	American General	Harold S Hook (49)	335	46	16	—	**397**	10	2	Kansas City, Mo	Insu
55	American Home Prod	[3]William F Laporte (67)	475	—	616	—	**1,091**	43	16	New York, NY	Administ
325	Amer Hospital Supply	Karl D Bays (47)	488	22	—	—	**510**	22	10	Loyall, Ky	
65	American Intl Group	Maurice R Greenberg (56)	456	2	564	—	**1,022**	20	14	New York, NY	Insu
49	Amer Medical Intl	Royce Diener (63)	450	5	266	423	**1,144**	11	5	Baltimore, Md	Fi
378	American Motors	Gerald C Meyers (52)	385	5	15	47	**451**	19	3	Buffalo, NY	Tech
583	American Natl Ins	Orson C Clay (50)	287	6	—	—	**293**	10	3	Bountiful, Utah	Administ
580	Amer Natl Resources	Arthur R Seder Jr (61)	281	—	14	—	**295**	21	4	Oak Park, Ill	
556	American Petrofina	Richard I Galland (64)	288	23	—	—	**312**	23	12	Denver, Colo	
803	Amer Quasar Petroleum	Richard L Lowe (53)	123	6	—	—	**129**	12	8	Wichita Falls, Tex	Fo
706	Amer Savings & Loan	Morris N Broad (46)	144	2	65	—	**211**	24	16	Burlington, Vt	Fi
693	American Security	W Jarvis Moody (53)	192	1	23	—	**216**	17	1	Mineola, NY	Ba
20	American Standard	William A Marquard (61)	705	14	524	920	**2,163**	28	9	Pittsburgh, Pa	Oper
414	American Stores	Lennie S Skaggs (57)	421	2	5	—	**427**	36	15	Yakima, Wash	Ret
139	American Tel & Tel	Charles L Brown (59)	716	5	59	—	**780**	35	2	Richmond, Va	Oper
519	AmeriTrust	M Brock Weir (59)	326	4	11	—	**342**	8	8	Wenatchee, Wash	Ba
259	AMF	W Thomas York (47)	545	21	—	—	**566**	12	3	Archdale, NC	Fi
195	Amfac	Henry A Walker Jr (59)	595	7	53	—	**654**	33	13	Honolulu, Haw	Oper
512	AMP	Joseph D Brenner (64)	346	—	—	—	**346**	34	9	Carlisle, Pa	Oper

[1]For FORBES definitions and methodology see page 114.

[2]Succeeded by Edward W. Whittemore, 1/1/81.
[3]Succeeded by John W. Culligan 5/1/81.

WHO GETS THE MOST PAY

Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Business background
AmSouth Bancorp	John W Woods (49)	175	20	—	—	**195**	11	9	Evanston, Ill	Banking
Amstar	Robert T Quittmeyer (60)	348	1	8	2	**359**	25	9	Peekskill, NY	Legal
Amsted Industries	[4]Goff Smith (64)	334	10	—	—	**343**	34	7	Jackson, Tenn	Sales
Anderson, Clayton	Thomas J Barlow (59)	311	3	33	—	**347**	35	14	Houston, Tex	Operations
Anheuser-Busch Cos	August A Busch III (44)	606	4	—	—	**610**	24	6	St Louis, Mo	Operations
Apple Computer	[5]Michael M Scott (38)	135	12	—	—	**148**	4	4	Gainesville, Fla	Technical
ARA Services	William S Fishman (65)	479	10	—	—	**488**	41	6	Clinton, Ind	Founder
Archer Danls Midland	Dwayne O Andreas (63)	445	—	—	—	**445**	10	10	Worthington, Minn	Finance
Arizona Bank	Donald B Tostenrud (56)	205	2	5	—	**212**	21	3	Estherville, Iowa	Banking
Arizona Public Serv	Keith L Turley (58)	178	—	4	—	**182**	29	7	Mesa, Ariz	Administration
Ark Louisiana Gas	Edward Sheffield Nelson (40)	274	4	17	315	**610**	17	8	Keevil, Ark	Legal
Armco	Harry Holiday Jr (57)	537	2	140	184	**862**	32	2	Pittsburgh, Pa	Technical
Armstrong World Inds	Harry A Jensen (62)	274	—	—	—	**274**	40	3	Council Bluffs, Iowa	Marketing
ASARCO	Charles F Barber (64)	560	—	5	—	**565**	25	10	Chicago, Ill	Legal
Ashland Oil	Orin E Atkins (57)	591	25	—	—	**616**	31	16	Pittsburgh, Pa	Legal
Associated Dry Goods	William P Arnold (56)	180	56	248	—	**484**	33	2	Omaha, Neb	Retailing
Atlantic Bancorp	Billy J Walker (50)	141	—	—	—	**141**	32	5	Baker County, Fla	Banking
Atlantic Richfield	Robert O Anderson (64)	754	36	371	896	**2,057**	39	16	Chicago, Ill	Production
Auto Data Processing	Frank R Lautenberg (57)	325	—	—	—	**325**	28	5	Paterson, NJ	Marketing
Avco	James R Kerr (63)	510	5	23	—	**538**	26	11	Las Vegas, NM	Administration
Avnet	Anthony R Hamilton (56)	774	12	139	—	**925**	24	1	North Bergen, NJ	Operations
Avon Products	David W Mitchell (53)	547	10	—	—	**557**	33	5	Pasadena, Cal	Sales
Bache Group	Harry A Jacobs Jr (60)	514	3	5	97	**619**	35	3	New York, NY	Investment
Baker International	Earnest H Clark Jr (54)	578	44	—	—	**622**	34	16	Birmingham, Ala	Technical
Baldwin-United	[6]Lucien Wulsin (64)	329	17	—	—	**346**	42	19	Cincinnati, Ohio	Legal
Bally Manufacturing	Robert Mullane (49)	487	45	7	—	**539**	8	1	Cincinnati, Ohio	Administration
Baltimore Gas & Elec	Bernard C Trueschler (58)	173	2	5	—	**179**	33	1	Baltimore, Md	Technical
Banc One	John G McCoy (68)	287	—	—	—	**287**	44	21	Marietta, Ohio	Finance
BanCal Tri-State	Chauncey E Schmidt (50)	310	14	—	—	**324**	5	5	Oxford, Iowa	Banking
Banco Popular PR	Rafael Carrión Jr (66)	134	—	37	—	**171**	48	24	San Juan, PR	Banking
BancOhio	[7]Robert G Stevens (51)	215	—	—	—	**215**	5	5	Marion, Ill	Banking
Bancorp Hawaii	Frank J Manaut (57)	186	14	—	—	**201**	30	1	Alhambra, Cal	Banking
Bank of New York	Elliott Averett (63)	288	190	77	—	**554**	41	6	Chatham, NJ	Banking
Bank of Virginia	Frederick Deane Jr (54)	165	1	11	—	**177**	27	7	Boston, Mass	Finance
BankAmerica	[8]Alden W Clausen (58)	700	9	40	22	**770**	31	11	Hamilton, Ill	Finance
Bankers Trust N Y	Alfred Brittain III (58)	424	—	38	4	**466**	34	6	Evanston, Ill	Banking
Barnett Banks Fla	Charles E Rice (45)	260	—	—	9	**270**	16	1	Chattanooga, Tenn	Banking
Bausch & Lomb	[9]Daniel G Schuman (64)	390	114	—	100	**604**	21	10	New York, NY	Finance
Baxter Travenol Labs	Vernon R Loucks Jr (46)	372	33	—	—	**405**	15	1	Evanston, Ill	Marketing
BayBanks	William M Crozier Jr (48)	180	19	—	—	**199**	17	6	New York, NY	Banking
Beatrice Foods	James L Dutt (56)	593	2	29	—	**623**	34	1	Topeka, Kan	Administration
Beckman Instruments	Arnold O Beckman (81)	398	2	17	—	**418**	46	41	Cullom, Ill	Founder
Becton, Dickinson	Wesley J Howe (60)	426	8	96	—	**529**	32	6	Jersey City, NJ	Administration
Belco Petroleum	Arthur B Belfer (74)	197	7	—	—	**204**	28	28	Poland	Founder
Bendix	William M Agee (43)	687	13	149	—	**850**	9	4	Boise, Ida	Finance
Beneficial Corp	Finn M W Caspersen (39)	379	13	22	—	**414**	9	4	New York, NY	Legal
Bethlehem Steel	Donald H Trautlein (54)	281	7	62	20	**370**	4	1	Sandusky, Ohio	Finance
Big Three Industries	Harry K Smith (69)	333	1	2	—	**336**	55	25	Pittsburgh, Pa	Administration
Black & Decker	Francis P Lucier (53)	307	23	5	—	**335**	18	6	Boston, Mass	Marketing
Blue Bell	L Kimsey Mann (64)	235	1	26	—	**262**	35	7	La Grange, Ga	Production
Boatmen's Bancshs	Donald N Brandin (59)	210	1	—	—	**211**	25	8	New York, NY	Banking

FORBES definitions and methodology see page 114.

[4]Succeeded by Robert H. Wellington, 1/20/81.
[5]Succeeded by A.C. Markkula Jr., 3/19/81.
[6]Succeeded by Morley P. Thompson, 1/1/81.
[7]Succeeded by Arthur D. Herrmann, 2/25/81.
[8]Succeeded by Samuel H. Armacost, 4/21/81.
[9]Succeeded by Daniel E. Gill, 4/24/81.

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bus backg
38	Boeing	Thornton A Wilson (60)	649	186	12	561	**1,409**	38	12	Sikeston, Mo	Tec
360	Boise Cascade	John B Fery (51)	373	41	53	—	**466**	24	8	Bellingham, Wash	Prod
169	Borden	Eugene J Sullivan (60)	495	16	191	—	**702**	35	1	New York, NY	
356	Borg-Warner	James F Beré (58)	416	50	9	—	**475**	20	9	Chicago, Ill	Prod
782	Borman's	Paul Borman (48)	142	—	8	—	**149**	27	16	Detroit, Mich	
736	Boston Edison	Thomas J Galligan Jr (61)	196	1	—	—	**197**	27	10	Watertown, Mass	F
106	Braniff Intl	[10]Harding L Lawrence (60)	300	32	527	—	**859**	16	16	Perkins, Okla	Administ
126	Bristol-Myers	Richard L Gelb (57)	797	5	14	—	**816**	31	9	New York, NY	Administ
741	Broadview Financial	John E Rupert (53)	191	—	—	—	**191**	27	7	Cleveland, Ohio	Administ
524	Brown-Forman Dist	W L Lyons Brown Jr (44)	306	32	—	—	**338**	20	5	Louisville, Ky	Mar
421	Brown Group	W L Hadley Griffin (63)	331	—	—	89	**421**	34	12	Edwardsville, Ill	
127	Brunswick	K Brooks Abernathy (62)	442	28	346	—	**816**	19	5	Missoula, Mont	F
572	Bucyrus-Erie	Norris K Ekstrom (53)	298	—	1	—	**299**	19	3	Kiron, Iowa	F
212	Burlington Inds	William A Klopman (59)	505	2	120	—	**627**	35	4	New York, NY	Mar
308	Burlington Northern	Richard M Bressler (50)	509*	14	—	—	**522**	1	1	Wayne, Neb	F
246	Burroughs	W Michael Blumenthal (55)	580†	8	—	—	**588**	1	1	Germany	Administ
3	Cabot	Robert A Charpie (55)	799	1,223	1,376	1,309	**4,706**	12	12	Cleveland, Ohio	Tec
698	California First Bnk	Yasushi Sumiya (53)	180†	30	5	—	**215**	1	1	Japan	B
341	Cameron Iron Works	Myron A Wright (70)	306	3	—	182	**491**	4	4	Blair, Okla	Administ
718	Campbell Soup	R Gordon McGovern (54)	202	4	1	—	**206**	25	1	Norristown, Pa	Mar
502	Campbell Taggart	C B Lane (56)	352	2	—	—	**354**	34	1	El Paso, Tex	F
36	Capital Cities Comm	Thomas S Murphy (56)	368	20	37	1,033	**1,458**	26	14	Brooklyn, NY	Administ
575	Capital Holding	Thomas C Simons (52)	282	2	12	—	**296**	3	3	Pasadena, Cal	Ins
439	Carnation	H Everett Olson (74)	345	—	62	—	**407**	50	13	Chicago, Ill	F
743	Carolina Pwr & Lt	Sherwood H Smith Jr (46)	181	4	5	—	**190**	16	1	Jacksonville, Fla	
315	Carter Hawley Hale	Philip M Hawley (55)	507	8	—	—	**515**	23	4	Portland, Ore	Re
648	Castle & Cooke	Donald J Kirchhoff (56)	253	—	—	—	**253**	25	6	St Louis, Mo	Adminis
330	Caterpillar Tractor	Lee L Morgan (61)	482	3	19	—	**504**	35	3	Aledo, Ill	Mar
136	CBI Industries	Marvin G Mitchell (64)	450	17	325	—	**792**	42	11	Waycross, Ga	
28	CBS	Thomas H Wyman (51)	1,361	4	292	—	**1,657**	1	1	St Louis, Mo	Mar
622	CBT	Walter J Connolly Jr (52)	209	3	24	35	**271**	20	4	Boston, Mass	B
130	Celanese	John D Macomber (53)	525	6	268	5	**805**	8	3	Rochester, NY	Adminis
639	Centex	[11]Frank M Crossen (57)	237	20	—	—	**258**	24	15	Dallas, Tex	F
700	Central & South West	Durwood Chalker (57)	198	—	15	—	**213**	31	1	Breckenridge, Tex	Tec
602	Central Bancorp	Oliver W Birckhead (59)	165	117	—	—	**282**[12]	30	9	Brooklyn, NY	Adminis
717	Central Bancshares	Harry B Brock Jr (55)	207	—	—	—	**207**	10	10	Fort Payne, Ala	F
768	Central Fidelity Bks	[13]Alvin R Clements (54)	161	—	3	—	**164**	8	6	Charlottesville, Va	B
587	Centl Louisiana Engy	Gale L Galloway (51)	282	10	—	—	**292**	7	1	Pearsall, Tex	Ope
680	Central Soya	Douglas G Fleming (51)	220	4	—	—	**225**	27	1	Harvey, Ill	
506	Central Tel & Utils	Robert P Reuss (63)	297	9	43	—	**349**	8	8	Aurora, Ill	Ope
565	Centran	[14]John A Gelbach (63)	285	18	—	—	**302**	25	10	Ellwood City, Pa	F
412	Cessna Aircraft	Russell W Meyer (48)	376	—	52	—	**428**	7	6	Davenport, Iowa	
307	Champion Intl	Andrew C Sigler (49)	500	22	1	—	**523**	24	6	Brooklyn, NY	
557	Charter	Raymond K Mason (54)	249	44	16	—	**309**	29	18	Jacksonville, Fla	F
244	Chase Manhattan	Willard C Butcher (54)	562	—	27	—	**589**	34	1	Bronxville, NY	B
262	Chemical New York	Donald C Platten (62)	525	39	—	—	**564**	40	8	New York, NY	B
321	Chesebrough-Pond's	Ralph E Ward (60)	416	96	—	—	**512**	34	13	Scotch Plains, NJ	Ma
224	Chromalloy American	Frank P Nykiel (64)	591	11	9	—	**610**	21	1	Chicago, Ill	F
100	Chrysler	Lee A Iacocca (56)	616	—	252	—	**868**	2	1	Allentown, Pa	Ope
401	Chubb	Henry U Harder (56)	378	—	58	—	**437**	32	1	New York, NY	Ins
754	Cincinnati G & E	William H Dickhoner (59)	161	—	19	—	**181**	40	5	Cincinnati, Ohio	Tec

*CEO joined company in 1980; salary less than full year.
†Salary annualized.
[1]For FORBES definitions and methodology see page 114.

[10]Succeeded by John J. Casey, 1/7/81
[11]Office jointly held with Paul R. Seegers.
[12]Figures are for 1979.
[13]Succeeded by Carroll L. Saine, 1/1/81.
[14]Succeeded by Wilson M. Brown Jr., 6/1/81.

AS LUXURY SEDANS BECOME MORE EXPENSIVE, THEIR INHERENT WORTH BECOMES MORE CRITICAL.

Due to a variety of eco-
omic ills, the day has fi-
ally arrived when the price
f a luxury automobile can
val that of a small house in
e country.

A disturbing trend that
as forced many otherwise
asual automobile buyers
scrutinize their potential
urchases as never before.

At BMW we are not
armed by this newly en-
ghtened consumer.

For when one examines
e features that truly mat-
r in a luxury sedan—perfor-
ance, craftsmanship and
esale value—no other ex-
ensive automobile justifies
s price quite so thoroughly
s the BMW 733i.

Accounting, no doubt, for
e fact that last year
e demand for the BMW
33i outpaced even our
most optimistic predictions.

EVOLUTION IS PREFERABLE TO REVOLUTION.

With a certain predictability, automakers reacted to the realities of the 1980's by bringing forth a plethora of "revolutionary" re-engineered cars.

The 733i, however, is hardly the result of a single year's rush to build an enlightened automobile.

Indeed, decades ago, when luxury car manufacturers were building ever larger cars, reckless in their consumption of fuel, BMW was championing such avant-garde concepts as six-cylinder engines, sensible piston displacements and impressive power-to-weight ratios.

The BMW 733i's 3.2-liter, fuel-injected power plant, for example, is the product of millions of miles of testing and refinement—on and off the great racecourses of the world.

Its double-pivot suspension system has been described by Car and Driver magazine as "...the single most significant breakthrough in front suspension design in this decade."

A five-speed standard transmission (automatic is available) affords one the unique opportunity to pick and choose one's own gears.

ELECTRONIC INNOVATION THAT GOES BEYOND A DIGITAL SPEEDOMETER.

On the BMW 733i, our electronic computerized monitoring system (first installed by BMW in 1975) plays a far more important role than mere decoration: it actually improves the car's efficiency.

With every engine revolution a computer receives and assesses signals from sensors deep within the 6-cylinder engine. Then instantly determines the precise air/fuel mixture to be injected into the cylinder ports.

Yet the incongruous note here is that BMW efficiency is not achieved at the expense of the sort of exhilarating performance one expects in a BMW—or the power reserves necessary to maneuver safely even under the most demanding conditions.*

LUXURY. NOT SUPERFICIALITY.

It would be difficult to imagine an appointment or an accessory that has been omitted in the BMW 733i.

Yet, all facets have been biomechanically engineered to achieve the perfect integration of man and machine.

Its seats are anatomically correct buckets and covered in wide rolls of supple leather.

All of its vital controls are within easy reach of the driver. Instruments are large, well-marked and totally visible.

So impressive is the total result that one automotive journalist was moved to write of the BMW 733i, "...to drive it is to know all the wonderful things machines can do for man."

To arrange a thorough test drive, we suggest you phone your nearest BMW dealer at your convenience.

THE ULTIMATE DRIVING MACHINE.

BMW Motor Cars, Germany

e 733i (with standard transmission) delivers 16 EPA estimated mpg, 25 estimated highway mileage and, based on these figures, an estimated mpg range of 360 miles and a highway range of 52 miles (Naturally, our fuel efficiency figures are for comparison purposes only Your actual mileage and range may vary, depending on speed, weather and trip length Your actual highway mile-e and highway range will most likely be lower) © 1981 BMW of North America, Inc The BMW trademark and logo are registered trademarks of Bayerische Motoren Werke, A G

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and 26 tennis courts close to the hotel. C
own beach for swimming, water skiing a
water sports. A heated pool. 6 nearby sk
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ment. 24 hour Casino. 20,000 sq. ft. of
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accommodating 1,000 theatre style or
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Capture the spirit

HYATT LAKE TAHOE

AT INCLINE VILLAGE

WHO GETS THE MOST PAY

Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Business background
Cincinnati Milacron	James A D Geier (55)	355	3	172	152	**682**	30	11	Cincinnati, Ohio	Technical
Citicorp	Walter B Wriston (61)	483	24	—	—	**507**	35	11	Middletown, Conn	Banking
Cities Service	[15]Robert V Sellers (54)	395	19	—	—	**414**	30	9	Bartlesville, Okla	Technical
Citizens & Sthrn Ga	Bennett A Brown (52)	230	18	30	—	**278**	26	3	Kingstree, SC	Banking
Citizens Fidelity	J David Grissom (42)	217	—	2	—	**219**	8	4	Portsmouth, Ohio	Legal
City Federal S & L	Gilbert G Roessner (63)	229	85	50	—	**364**	40	12	Irvington, NJ	Banking
City Investing	George T Scharffenberger (62)	569	12	121	4,464	**5,166**	15	15	Ridgewood, NJ	Operations
Clark Equipment	Bert E Phillips (62)	327	15	94	—	**436**	33	8	Quincy, Ill	Marketing
Clark Oil & Refining	Robert G Reed III (53)	492	15	7	—	**514**	2	2	Cambridge, Mass	Marketing
Cleveland Elec Illum	Robert M Ginn (57)	200	12	6	—	**218**	32	2	Detroit, Mich	Technical
Coastal Corp	Oscar S Wyatt Jr (56)	490	1	—	—	**491**	25	25	Beaumont, Tex	Founder
Coca-Cola	[16]J Paul Austin (66)	762	74	—	—	**837**	31	14	La Grange, Ga	Legal
Colgate-Palmolive	Keith Crane (60)	548	15	278	—	**841**	44	2	New Zealand	Administration
Colonial Penn Group	John J MacWilliams (52)	365	24	231	—	**620**	12	11	Syracuse, NY	Administration
Colt Industries	George A Strichman (64)	653	185	375	—	**1,213**	18	18	Schenectady, NY	Administration
Columbia Gas System	W Frederick Laird (61)	270	16	—	—	**287**	29	1	London, Ohio	Legal
Combined Internatl	Clement Stone (53)	547	37	—	—	**584**	30	8	Evanston, Ill	Insurance
Combustion Engnrng	Arthur J Santry Jr (62)	813	—	120	—	**933**	25	18	Brookline, Mass	Legal
Commerce Bancshrs	James M Kemper Jr (59)	131	8	—	—	**140**	34	14	Kansas City, Mo	Banking
Commercial Metals	Stanley A Rabin (43)	325	—	34	14	**373**	11	2	New York, NY	Administration
Commonwlth Edison	James J O'Connor (44)	207	6	—	—	**213**	17	1	Chicago, Ill	Administration
Commonwealth Oil	C Howard Hardesty Jr (59)	500	—	—	—	**500**	2	2	Fairmont, W Va	Legal
Computervision	Martin Allen (50)	281	2	14	—	**297**	12	12	Des Moines, Iowa	Founder
Connecticut General	Robert D Kilpatrick (57)	472	—	185	—	**656**	27	4	Fairbanks, La	Insurance
Conoco	Ralph E Bailey (57)	614	24	—	485	**1,123**	16	2	Lynnville, Ind	Technical
Consolidated Edison	Charles F Luce (63)	235	186	—	—	**422**	13	13	Platteville, Wisc	Administration
Consolidated Foods	John H Bryan Jr (44)	580	9	—	166	**755**	21	6	West Point, Miss	Administration
Consol Freightways	Raymond F O'Brien (59)	393	3	–104	38	**329**	23	4	Atchison, Kan	Finance
Consol Natural Gas	George J Tankersley (60)	265	1	13	—	**279**	14	2	Ruston, La	Administration
Consolidated Papers	George W Mead (53)	197	—	—	—	**197**	28	15	Milwaukee, Wisc	Operations
Consumers Power	John D Selby (59)	276	2	7	—	**284**	6	3	Odebolt, Iowa	Technical
Continental Bank	Roy T Peraino (53)	294	—	—	—	**294**	23	11	Philadelphia, Pa	Finance
Continental Corp	John B Ricker Jr (63)	366	3	18	55	**442**	42	5	Augusta, Ga	Insurance
Continental Group	S Bruce Smart Jr (58)	473	—	53	19	**546**	28	1	New York, NY	Marketing
Continental Illinois	Roger E Anderson (59)	590	26	68	—	**684**	34	8	Chicago, Ill	Banking
Continental Tel	Charles Wohlstetter (71)	428	39	—	—	**468**	20	9	New York, NY	Finance
Control Data	William C Norris (69)	639	—	—	—	**639**	23	23	Red Cloud, Neb	Founder
Cooper Industries	Robert Cizik (50)	563	15	479	—	**1,056**	19	6	Scranton, Pa	Finance
Adolph Coors	William K Coors (64)	258	1	—	—	**258**	41	20	Golden, Colo	Technical
Corning Glass Works	Amory Houghton Jr (54)	435	9	80	121	**646**	29	17	Corning, NY	Operations
Cox Broadcasting	Clifford M Kirtland Jr (57)	273	1	—	—	**274**	17	7	Buffalo, NY	Finance
CPC International	James W McKee Jr (58)	514	10	226	102	**852**	34	8	Pittsburgh, Pa	Finance
Crane	Thomas M Evans (70)	317	—	—	—	**317**	22	22	Pittsburgh, Pa	Finance
Cray Research	John A Rollwagen (40)	120	—	10	204	**334**	5	1	Minneapolis, Minn	Marketing
Crocker National	Thomas R Wilcox (64)	584	17	—	—	**602**	7	7	New York, NY	Banking
Crouse-Hinds	Chris J Witting (66)	425	12	145	—	**582**[12]	16	16	Cranford, NJ	Administration
Crown Central Petrol	Henry A Rosenberg Jr (51)	362	14	—	—	**376**	28	10	Pittsburgh, Pa	Administration
Crown Cork & Seal	John F Connelly (76)	180	2	—	—	**182**	24	24	Philadelphia, Pa	Sales
Crown Zellerbach	Charles R Dahl (59)	370	18	20	—	**407**	31	11	Brooklyn, NY	Production
Crum & Forster	B P Russell (61)	424	9	25	78	**536**	39	10	Fort Worth, Tex	Insurance
CSX	Prime F Osborn III (65)	712	10	—	—	**721**	29	4	Greensboro, Ala	Legal

FORBES definitions and methodology see page 114

[12]Figures are for 1979.
[15]Succeeded by Charles J Waidelich, 4/28/81
[16]Succeeded by Roberto C. Goizueta, 3/1/81.

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Busi backgr
695	Cullen/Frost Bankers	Thomas C Frost (53)	204	12	—	—	**215**	31	15	San Antonio, Tex	Bar
175	Cummins Engine	Henry B Schacht (46)	478	38	166	—	**682**	16	11	Erie, Pa	Administr
348	Dana	Gerald B Mitchell (53)	473	8	—	—	**481**	37	1	Goderich, Can	Opera
109	Dart & Kraft	John M Richman (53)	678	18	159	—	**854**	26	2	New York, NY	
773	Data General	Edson D deCastro (42)	156	—	—	—	**156**	13	13	Plainfield, NJ	Fou
17	Datapoint	Harold E O'Kelley (56)	333	9	97	1,882	**2,321**	8	8	Jacksonville, Fla	Tech
765	Dayton Power & Light	Robert E Frazer (52)	163	6	—	—	**169**	6	3	Detroit, Mich	Fir
164	Dayton-Hudson	William A Andres (54)	538	18	—	156	**713**	22	4	Fayette, Iowa	Reta
449	Dean Witter Reynolds	Andrew J Melton Jr (61)	338	9	51	—	**399**	8	1	Bay Shore, NY	Invest
406	Deere	William A Hewitt (66)	410	24	—	—	**434**	32	26	San Francisco, Cal	Mark
702	DEKALB AgResearch	Thomas H Roberts Jr (57)	181	9	22	—	**212**	32	19	DeKalb, Ill	Mark
619	Delhi Intl Oil	Norman C Miller (61)	190	—	84	—	**274**	26	7	Lyons, Kan	Produ
296	Delta Air Lines	David C Garrett Jr (58)	478	2	52	—	**533**	34	3	Norris, SC	Opera
764	Deluxe Check Printers	Eugene R Olson (55)	144	4	21	—	**169**	37	3	St Paul, Minn	Mark
815	Deposit Guaranty	Warren A Hood (64)	70	2	11	—	**84**	3	1	Copiah County, Miss	Administr
615	Detroit Edison	William G Meese (64)	276	—	—	—	**276**	40	9	Rugby, ND	Tech
632	DETROITBANK	Rodkey Craighead (64)	255	7	—	—	**262**	35	3	Pittsburgh, Pa	Ba
549	Diamond Intl	William J Koslo (51)	305	16	—	—	**321**	26	4	Mt Carmel, Pa	
121	Diamond Shamrock	William H Bricker (49)	640	15	10	166	**831**	12	4	Detroit, Mich	Mark
290	Digital Equipment	Kenneth H Olsen (55)	344	195	—	—	**539**	23	23	Bridgeport, Conn	Fo
216	Dillingham	Herbert C Cornuelle (61)	424	39	160	—	**622**	11	4	Cincinnati, Ohio	Opera
657	Dillon Companies	Ray E Dillon, Jr (57)	235	—	12	—	**247**	34	18	Hutchinson, Kan	Administ
391	Walt Disney	E Cardon Walker (65)	258	72	16	97	**443**	43	4	Rexburg, Ida	Mark
689	Dominion Bankshares	Byron A Hicks (64)	199	14	—	3	**217**	35	3	Moneta, Va	Fi
277	Donaldson, Lufkin	Richard H Jenrette (52)	515	—	37	—	**551**	21	7	Raleigh, NC	Fo
73	R R Donnelley & Sons	Charles W Lake Jr (63)	402	52	199	339	**992**	35	17	La Porte, Ind	Produ
790	Dorchester Gas	George S Rooker (62)	141	2	—	—	**142**	25	21	Memphis, Tenn	Inves
264	Dover	[17]Thomas C Sutton (60)	415	30	116	—	**561**	30	17	Longmont, Colo	
192	Dow Chemical	Paul F Oreffice (53)	442	192	—	24	**658**	28	3	Italy	Fi
205	Dow Jones	Warren H Phillips (55)	416	129	93	—	**638**	34	6	New York, NY	Journ
540	Dravo	Robert Dickey III (63)	318	—	11	—	**329**	33	16	Pittsburgh, Pa	
27	Dresser Industries	John V James (62)	353	5	915	445	**1,717**	23	11	Plains Township, Pa	Fi
646	Duke Power	Carl Horn Jr (59)	236	3	17	—	**256**	27	10	Rutherfordton, NC	
30	Dun & Bradstreet	Harrington Drake (61)	600	—	14	1,030	**1,645**	33	6	Kansas City, Mo	Mar
99	E I du Pont	[18]Irving S Shapiro (64)	697	175	—	—	**873**	30	7	Minneapolis, Minn	
748	Duquesne Light	John M Arthur (58)	177	8	—	—	**184**	36	12	Pittsburgh, Pa	Oper
372	Eastern Air Lines	Frank Borman (53)	335	98	21	—	**454**	11	5	Gary, Ind	Tec
516	Eastern Gas & Fuel	William J Pruyn (58)	340	3	—	—	**343**	29	3	Boston, Mass	Fi
163	Eastman Kodak	Walter A Fallon (63)	682	6	25	—	**714**	39	9	Schenectady, NY	Produ
170	Eaton	E Mandell de Windt (60)	563	25	6	108	**702**	39	11	Grt Barrington, Mass	Oper
367	Jack Eckerd	Stewart Turley (46)	339	14	106	—	**460**	14	6	Mt Sterling, Ky	Admini
21	EG&G	Bernard J O'Keefe (61)	445	21	—	1,646	**2,111**	33	16	Providence, RI	Tec
462	El Paso	Travis H Petty (60)	360	26	—	3	**389**	35	2	Clarksville, Tex	Admini
105	Emerson Electric	Charles F Knight (45)	754	28	80	—	**861**	8	7	Lake Forest, Ill	Admini
302	Emhart	T Mitchell Ford (60)	485	6	—	37	**528**	22	11	Albany, NY	
15	Energy Reserves Gp	Richard W Volk (45)	184	7	24	2,123	**2,337**	8	8	Denver, Colo	Tec
5	Engelhard Minerals	Milton F Rosenthal (67)	1,825	477	1,699	—	**4,000**	16	16	New York, NY	Admini
235	ENSERCH	William C McCord (53)	400	17	41	141	**599**	32	10	San Antonio, Tex	Tec
234	Entex	Jackson C Hinds (59)	208	8	6	378	**599**	12	9	Brownsville, Tex	
747	Equimark	William E Bierer (51)	178	7	—	—	**185**	12	2	Uniontown, Pa	B
805	Equitable Bancorp	Owen Daly II (56)	124	2	—	—	**126**	16	6	Denver, Colo	B

[1]For FORBES definitions and methodology see page 114.

[17]Succeeded by Gary L. Roubos, 1/1/81.
[18]Succeeded by Edward G. Jefferson, 5/1/81.

WHO GETS THE MOST PAY

Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Business background
Equitable of Iowa	Kenneth R Austin (61)	135	1	—	—	**136**	33	11	Keosauqua, Iowa	Administration
Esmark	Donald P Kelly (59)	1,647	314	9	—	**1,970**	27	3	Chicago, Ill	Finance
Ethyl	Floyd D Gottwald Jr (58)	383	22	—	—	**404**	38	11	Richmond, Va	Administration
Evans Products	Monford A Orloff (67)	532	—	—	33	**565**	23	18	Omaha, Neb	Legal
Ex-Cell-O	Edward J Giblin (63)	435	100	22	—	**556**	27	9	New York, NY	Finance
Exxon	Clifton C Garvin Jr (59)	1,043	61	228	2,016	**3,348**	34	5	Portsmouth, Va	Technical
Fairchild Industries	Edward G Uhl (63)	510	44	—	1,021	**1,575**	20	20	Elizabeth, NJ	Administration
Farmers Group	Richard G Lindsley (59)	281	—	—	—	**281**	30	2	Minneapolis, Minn	Insurance
Fed-Mart	Jan W Heydorn (47)	—	—	—	—	**NA**	1	1	Germany	Administration
Federal Express	Frederick W Smith (36)	284	9	2	—	**296**	10	10	Marks, Miss	Founder
Fedl Natl Mortgage	[19]A Oakley Hunter (65)	196	18	45	—	**259**	11	11	Los Angeles, Cal	Legal
Federated Dept Stores	[20]Ralph Lazarus (67)	469	45	157	—	**671**	46	13	Columbus, Ohio	Administration
Felmont Oil	Hadley Case (72)	93	—	3	—	**96**	30	29	New York, NY	Technical
Fidelcor	Raymond J Dempsey (46)	269	18	60	—	**347**	2	2	Yonkers, NY	Banking
Fidelity Financial	Adolph C Meyer Jr (56)	206	15	—	—	**220**	18	12	Oakland, Cal	Sales
Fidelity Union Bncp	Peter Cartmell (60)	202	1	13	—	**216**	35	1	Scotland	Banking
Fin Cp Santa Barbara	David L Tilton (54)	156	2	—	—	**158**	29	15	Santa Barbara, Cal	Finance
Fin Corp of America	Charles W Knapp (47)	315	—	19	—	**334**	8	6	Honolulu, Haw	Finance
Financial Federation	Edward L Johnson (71)	188	3	—	—	**191**	21	21	Chicago, Ill	Finance
Financial General	J William Middendorf II (56)	123	—	5	—	**129**	4	4	Baltimore, Md	Finance
Firestone	John J Nevin (54)	374	—	2	—	**377**	1	1	Jersey City, NJ	Marketing
First Alabama Bshs	Frank A Plummer (69)	206	27	—	—	**234**	16	10	Richland, NY	Finance
First American	Kenneth L Roberts (48)	208	2	29	—	**240**	5	4	Dungannon, Va	Banking
First American Bank	James H Duncan (56)	207	—	—	—	**208**	31	11	Madison, Wisc	Banking
First & Merchants	C Coleman McGehee (56)	214	12	—	—	**225**	32	7	Franklin, Va	Banking
First Atlanta	Thomas R Williams (52)	300	19	29	78	**426**	8	5	Atlanta, Ga	Banking
First Bank System	Donald R Grangaard (62)	371	—	—	—	**371**	42	12	Rothsay, Minn	Administration
First Boston	George L Shinn (58)	525	—	338	—	**863**	6	6	Newark, Ohio	Administration
First Charter Finl	S Mark Taper (79)	225	—	—	—	**225**	26	26	England	Founder
First Chicago	Barry F Sullivan (50)	525†	33	—	—	**558**	1	1	Bronx, NY	Banking
First City Bancorp	James A Elkins Jr (62)	398	14	87	—	**500**	39	18	Galveston, Tex	Banking
First Empire State	Claude F Shuchter (58)	151	—	—	—	**151**	22	4	Chicago, Ill	Banking
First Florida Banks	Chester H Ferguson (72)	3[21]	—	—	—	**3**	9	9	Americus, Ga	Legal
First Hawaiian	John D Bellinger (58)	230	23	102	—	**355**	39	11	Honolulu, Haw	Banking
First Intl Bshs	Elvis L Mason (47)	439	29	143	53	**664**	7	1	Vivian, La	Banking
First Interstate[22]	Joseph J Pinola (56)	422	6	65	104	**597**	5	3	Pittston, Pa	Banking
First Kentucky Natl	A Stevens Miles (51)	219	8	—	—	**227**	27	6	Louisville, Ky	Banking
First Maryland Bncp	J Owen Cole (52)	210	2	—	—	**212**	24	7	Rutherfordton, NC	Administration
First Mississippi	J Kelley Williams (47)	263	83	—	—	**346**	14	9	Bentonia, Miss	Technical
First Natl Bancorp	Theodore D Brown (59)	182	1	24	—	**206**	11	4	Denver, Colo	Banking
First Natl Boston	Richard D Hill (61)	331	32	75	—	**438**	35	9	Salem, Mass	Banking
First Natl Charter	Gordon E Wells (53)	205	5	—	—	**210**	29	4	Hamburg, Iowa	Banking
First National Cinc	William N Liggett (64)	210	—	—	—	**210**	33	10	Ripley, Ohio	Finance
First Natl State Bcp	Robert R Ferguson Jr (57)	218	—	—	—	**218**	31	8	Savannah, Ga	Banking
First Natl Supermkts	Richard J Bogomolny (46)	197	2	—	—	**199**	8	6	Cleveland, Ohio	Administration
First Oklahoma Bncp	[23]Charles A Vose (80)	113	—	7	—	**120**	60	22	Clinton, Iowa	Finance
First Pennsylvania	George A Butler (53)	208	9	—	—	**216**	31	1	Westmont, NJ	Banking
First Security	George S Eccles (81)	256	25	—	—	**282**	59	35	Baker, Ore	Founder
First Tennessee Natl	Ronald A Terry (50)	251	15	—	—	**266**	24	7	Memphis, Tenn	Banking
First Union Bancorp	Clarence C Barksdale (49)	340	8	—	4	**352**	22	3	St Louis, Mo	Banking
First Union	C Clifford Cameron (61)	274	22	75	—	**371**	17	14	Meridian, Miss	Banking

ry annualized.
FORBES definitions and methodology see page 114.
ot available.

[19]Succeeded by David Q. Maxwell, 5/21/81.
[20]Succeeded by Howard Goldfeder, 2/1/81.
[21]Director's fees only; excludes fees paid to law firm of which Mr. Ferguson is a partner
[22]Formerly Western Bancorp.
[23]Succeeded by Charles A. Vose Jr., 1/20/81

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contingent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bus backgr
586	First United Bancorp	Paul W Mason (60)	281	—	11	–	**292**	19	11	Wichita, Kan	Ba
715	First Wisconsin	Hal C Kuehl (58)	199	9	-	—	**208**	33	3	Davenport, Iowa	Ba
554	Fisher Foods	[24]Dominick DiMatteo Jr (63)	310	4	–	—	**314**	56	6	Chicago, Ill	Ret
683	Flagship Banks	Philip F Searle (56)	180	—	22	20	**222**	6	6	Kansas City, Mo	Ba
486	Fleming Companies	Richard D Harrison (58)	317	14	40	—	**371**	27	15	Salt Lake City, Utah	
463	Flickinger	[25]Robert F Norris (59)	333	—	56	—	**389**	8	6	Mullinville, Kan	Administ
816	Florida Natl Banks	[26]Richard E Ehlis (64)	73	2	—	—	**75**	40	1	Lancaster, Ohio	Ba
753	Florida Power	Andrew H Hines Jr (58)	169	—	12	—	**181**	29	8	Lake City, Fla	Tec
368	Florida Power & Lt	Marshall McDonald (63)	260	14	185	—	**459**	9	9	Memphis, Tenn	Fi
72	Fluor	J Robert Fluor (59)	771	16	210	—	**997**	35	13	Santa Ana, Cal	Fi
355	FMC	Robert H Malott (54)	464	—	12	—	**476**	28	9	Boston, Mass	Oper
497	Food Fair	Grant C Gentry (57)	360	—	—	—	**360**	2	2	Chicago, Ill	
426	Ford Motor	Philip Caldwell (61)	400	7	10	–	**417**	28	1	Bourneville, Ohio	Administ
311	Foremost-McKesson	Thomas E Drohan (53)	408	2	18	93	**520**	19	3	Newton, Mass	Oper
496	Fort Howard Paper	Paul J Schierl (46)	267	39	16	39	**360**	17	6	Neenah, Wisc	
362	Foster Wheeler	Frank A Lee (57)	268	93	104	—	**465**	21	10	Greenville, Pa	Tec
638	Foxboro	Earle W Pitt (58)	247	11	—	—	**258**	33	8	New York, NY	
112	Freeport Minerals	Paul W Douglas (54)	540	17	288	—	**846**	28	5	Springfield, Mass	Mar
402	Fruehauf	Robert D Rowan (59)	426	26	–16	—	**436**	25	7	Holland, Mich	F
122	Fuqua Industries	John B Fuqua (63)	805	18	—	—	**823**	15	15	Prince Edw Cnty, Va	Fi
40	Gannett	Allen H Neuharth (57)	521	40	83	670	**1,315**	18	8	Eureka, SD	Jour
407	GATX	James J Glasser (47)	387	2	44	—	**433**	19	2	Chicago, Ill	
582	Gearhart Industries	Marvin Gearhart (54)	252	12	29	—	**294**	26	6	Erie, Kan	Fi
14	GEICO	John J Byrne (48)	783	81	113	1,397	**2,374**	5	5	Paterson, NJ	Ins
267	Gelco	N Bud Grossman (60)	291	11	105	152	**560**	24	24	Minneapolis, Minn	F
694	General American Oil	William P Barnes (61)	188	28	—	—	**216**	28	3	Marlin, Tex	
9	General Dynamics	David S Lewis (63)	455	9	—	2,557	**3,021**	10	10	N Augusta, SC	Adminis
44	General Electric	[27]Reginald H Jones (63)	1,000	52	—	151	**1,203**	41	8	England	Ope
150	General Foods	James L Ferguson (55)	485	9	250	—	**743**	18	7	Evanston, Ill	Ma
319	General Instrument	Frank G Hickey (53)	506	8	—	—	**513**	16	6	Stevens Pt, Wisc	Ma
181	General Mills	[28]E Robert Kinney (64)	540	38	96	—	**674**	26	5	Burnham, Me	Adminis
418	General Motors	[29]Thomas A Murphy (65)	400	22	—	—	**422**	43	6	Hornell, NY	I
675	General Public Utils	William G Kuhns (59)	230	1	—	—	**231**	25	14	Milwaukee, Wisc	I
229	General Re	Harold J Hudson Jr (57)	418	5	184	—	**606**	25	10	Kansas City, Mo	
265	General Signal	Nathan R Owen (62)	545	16	—	—	**561**	20	19	Burnt Hills, NY	Te
201	General Tel & Elec	Theodore F Brophy (58)	627	17	—	—	**644**	23	5	New York, NY	
533	Genl Tire & Rubber	Michael G O'Neil (59)	321	8	4	—	**333**	35	21	Akron, Ohio	Admini
640	Genuine Parts	Wilton D Looney (62)	246	12	—	—	**258**	42	19	Vanna, Ga	Ope
452	Georgia-Pacific	Robert E Flowerree (60)	344	18	35	—	**397**	29	4	New Orleans, La	Ope
95	Geosource	John D Platt (50)	360	1	—	519	**880**	2	2	Kingston, Pa	Te
318	Getty Oil	Sidney R Petersen (50)	476	37	—	—	**513**	26	1	Oakland, Cal	
546	Giant Food	Israel Cohen (68)	309	6	7	—	**321**	45	3	Israel	I
730	Gibraltar Financial	Herbert J Young (49)	201	—	—	—	**201**	28	12	Los Angeles, Cal	Admini
384	Gillette	Colman M Mockler Jr (51)	402	3	44	—	**449**	23	6	St Louis, Mo	
558	Girard	William B Eagleson Jr (55)	285	–	24	—	**309**	29	6	Philadelphia, Pa	
26	GK Technologies	Robert P Jensen (55)	1,636	115	100	—	**1,851**	8	8	Chicago, Ill	Te
485	Global Marine	C Russell Luigs (48)	348	25	–	—	**373**	4	4	Evansville, Ind	Te
704	Golden West Finl	[30]Herbert M Sandler (49)	212	—	—	—	**212**	17	17	New York, NY	
455	B F Goodrich	John D Ong (47)	372	7	16	—	**395**	20	1	Ulrichsville, Ohio	
117	Goodyear	Charles J Pilliod Jr (62)	759	—	77	—	**835**	40	7	Cuyahoga Falls, Ohio	
279	Gould	William T Ylvisaker (57)	478	42	31	—	**551**	13	13	St Paul, Minn	Admini

[1]For FORBES definitions and methodology see page 114.

[24]Shares "Office of the President" with R.G. Everett & C. Fazio.
[25]Succeeded by Jerry D. Metcalf, 2/11/81.
[26]Succeeded by George C. Whitner Jr., 2/21/81.
[27]Succeeded by John F. Welch Jr., 4/1/81.
[28]Succeeded by H. Brewster Atwater Jr., 4/1/81.
[29]Succeeded by Robert B. Smith, 1/1/81.
[30]Office jointly held with Marion O. Sandler

MORTGAGE-BACKED SECURITIES: COMPLEX, VOLATILE, BURGEONING AND HIGHLY PROFITABLE.

Creative thinking leads to the mobilization of capital to serve First Boston's customers.
By Laurence Fink

During the past ten years, mortgage-backed securities have been the most explosive marketplace in the industry. In 1970, the typical buyers were thrift institutions. Due to increased product knowledge, large supply, liquidity and value relative to other fixed-income securities, new investors entered the market. Today, there is no typical buyer. Bank trust departments, life insurance companies, investment advisors and state funds, as well as thrift institutions, are attracted to mortgage-backed securities.

"What makes dealing in pass-throughs so different is that you are trading both in a forward and futures market."

The mortgage-backed securities market consists primarily of three types of pass-through securities—so-named because the monthly principal and interest payments are passed along to the holders of the security. These are Government National Mortgage Association pass-throughs (GNMA), Federal Home Loan Mortgage Corporation Participation Certificates (FHLMC-PC) and privately-issued, conventionally-backed pass-throughs.

What makes dealing in pass-throughs so different is that one is trading both in a forward and futures market. The development of a forward market is due to the nature of the housing industry. A mortgage banker must commit an interest rate six months or more in advance to finance a housing development's construction and selling period. Thus, instead of trading for next-day delivery, like government securities, or five-business-days delivery, like corporate securities, mortgage-backed securities can trade for delivery as far out as six months or more.

Trading forward delivery and the interplay between forward markets and the futures market allow the trading desk to readily arbitrage its positions. Having the ability to arbitrage coupon to coupon, delivery month to delivery month and forward to futures has allowed us to bid for or offer large blocks of securities. A good example of First Boston's ability to arbitrage the GNMA positions and respond to our customers' inquiries was when we were asked with three other dealers to bid competitively on 130 million of GNMA discount securities. First Boston purchased 100 million. Due to market volatility and uncertainty it was determined that we reduce our market exposure through sales in other GNMA discounts and through sales in the futures market. We were able to successfully arbitrage our entire position, and reduce our market exposure.

"The ability to arbitrage different things in different ways is virtually unlimited."

Another dimension in trading mortgage-backed securities is the speed of prepayment of principal for individual GNMA pools or FHLMC-PC groups. Although the standard in quoting mortgage-backed securities is the assumption of a 12-year average life, our research has determined that each GNMA pool or FHLMC-PC group has its own prepayment experience. We have seen specific GNMA pools prepay from a rate of an 8-year average life to rates greater than the 12-year average life assumption. To properly evaluate GNMAs or FHLMC-PCs, each pool or group must be analyzed on an individual basis. At First Boston, we have computer programs (which can assist our customers in their portfolio holding of mortgage-backed securities) to determine prepayment experience, rates of return and consistency of prepayment.

Ultimately, transacting trades profitably and professionally in this complex area necessitates a combination of managerial, research, operations and sales support such as First Boston's. With our trading expertise and with the ability to take advantage of the arbitraging characteristics of mortgage-backed securities, customers can get liquidity and execution at any time or in any market.

The mortgage market is undergoing massive changes, including the development of wrap-around mortgages, variable-rate mortgages and shared-appreciation mortgages. These will find their way into the mortgage-backed securities market. Furthermore, the CBOE has been approved to include GNMA options this fall, which will add another new dimension to the market.

To meet these new challenges and to continue to be a leader in mortgage-backed securities, First Boston will continue to commit our capabilities and resources to enhance our customers' knowledge, expertise and profits.

Larry Fink is Vice President and Manager of the Mortgage-backed Trading Desk at our New York headquarters: 20 Exchange Place, New York, N.Y. 10005. Phone: (212) 825-5790.

First Boston
Investment Bankers

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bus backg
53	W R Grace	J Peter Grace (68)	678	71	—	365	**1,114**	44	35	Manhasset, NY	Fi
552	W W Grainger	David W Grainger (53)	277	2	37	—	**316**	31	7	Chicago, Ill	Administ
171	Great Atl & Pac Tea	James Wood (51)	700	—	—	—	**700**	1	1	England	Ret
520	Gt Northern Nekoosa	Robert Hellendale (63)	317	—	7	16	**341**	27	2	New York, NY	
382	Gt Western Financial	James F Montgomery (46)	280	3	8	158	**450**	5	2	Topeka, Kan	Fi
280	Greyhound	Gerald H Trautman (68)	430	5	113	—	**548**	35	15	Petoskey, Mich	
478	Grumman	John C Bierwirth (57)	315	5	22	33	**375**	8	6	Lawrence, NY	Fi
155	Gulf & Western Inds	Charles G Bluhdorn (54)	716	7	10	—	**733**	25	25	Austria	Fi
47	Gulf Oil	Jerry McAfee (64)	742	14	40	364	**1,160**	36	5	Port Arthur, Tex	Oper
630	Gulf States Utils	W Donham Crawford (58)	242	10	12	—	**264**	3	3	Little Rock, Ark	Administ
58	Gulf United	E Grant Fitts (65)	550	45	164	305	**1,064**	13	13	Montevallo, Ala	
70	Halliburton	John P Harbin (63)	603	206	194	—	**1,003**	32	9	Waxahachie, Tex	Fi
538	Hammermill Paper	Albert F Duval (60)	311	11	8	—	**330**	21	10	Holyoke, Mass	Marl
559	Harris Bankcorp	Charles M Bliss (59)	285	23	—	—	**308**	37	3	Evanston, Ill	Ba
35	Harris Corp	Joseph A Boyd (60)	521	—	521	439	**1,481**	19	3	Oscar, Ky	Tec
434	Harsco	Jeffrey J Burdge (59)	293	4	106	6	**409**	27	4	England	Fi
608	Hartford Natl	Robert L Newell (58)	230	9	41	—	**280**	35	5	Hartford, Conn	Ba
134	H J Heinz	Anthony J F O'Reilly (45)	576	10	208	—	**794**	12	1	Ireland	
562	Walter E Heller Intl	Franklin A Cole (55)	300	5	—	—	**305**	18	10	Park Falls, Wisc	
760	Helmerich & Payne	Walter H Helmerich III (58)	161	8	6	—	**175**	32	20	Tulsa, Okla	Administ
232	Hercules	Alexander F Giacco (61)	525	23	38	14	**601**	39	3	Italy	Tec
450	Hershey Foods	William E C Dearden (58)	300	—	97	—	**397**	23	5	Philadelphia, Pa	
189	Heublein	Hicks B Waldron (57)	581	3	78	—	**662**	8	1	Amsterdam, NY	Tec
366	Hewlett-Packard	John A Young (49)	402	1	60	—	**462**	22	3	Nampa, Ida	Tec
420	Hilton Hotels	Barron Hilton (53)	410	11	—	—	**421**	26	15	Dallas, Tex	Administ
236	Holiday Inns	[31]Roy E Winegardner (60)	382	8	207	—	**598**	7	2	Springfield, Mo	Administ
661	Homestake Mining	Harry M Conger (50)	231	9	—	—	**241**	5	2	Seattle, Wash	Tec
50	Honeywell	Edson W Spencer (55)	595	—	548	—	**1,143**	26	6	Chicago, Ill	
457	George A Hormel	Ira J Holton (61)	393	1	—	—	**394**	34	9	Cedar Rapids, Iowa	
445	Hospital Corp of Am	Donald S MacNaughton (63)	400	2	—	—	**402**	2	2	Schenectady, NY	Inst
709	Hospital Trust	Henry S Woodbridge Jr (52)	209	1	—	—	**210**	26	6	Boston, Mass	Fi
140	Household Finance	Gilbert R Ellis (65)	724	47	—	—	**771**	46	8	Powersville, Mo	Oper
635	Houston Industries	Don D Jordan (49)	238	20	2	—	**260**	24	4	Corpus Christi, Tex	
446	Houston Natural Gas	Robert R Herring (60)	391	—	11	—	**402**	23	13	Childress, Tex	Tec
114	Houston Oil & Min	F Fox Benton Jr (42)	297	—	34	510	**841**	14	2	Houston, Tex	Fi
12	Hughes Tool	James R Lesch (59)	418	89	65	2,058	**2,630**	34	1	Apache, Okla	Administ
284	Humana	David A Jones (49)	505	30	10	—	**545**	19	19	Louisville, Ky	Fi
584	Huntington Bshs	[32]Arthur D Herrmann (54)	271	—	—	21	**293**	30	5	Louisville, Ky	Ba
138	E F Hutton Group	Robert M Fomon (56)	760	3	23	—	**786**	30	10	Chicago, Ill	Inves
120	IC Industries	William B Johnson (62)	626	21	186	—	**832**	15	15	Salisbury, Md	
731	Idaho First Natl Bk	Thomas C Frye (62)	200	—	—	—	**200**	43	11	Ontario, Ore	Ba
494	Ideal Basic Inds	John A Love (64)	225	6	131	—	**362**	7	6	Gibson City, Ill	
746	Illinois Power	Wendell J Kelley (55)	175	4	7	—	**186**	31	14	Champaign, Ill	Tec
650	Imperial Corp of Am	E Michael Lallinger (65)	253	—	—	—	**253**	24	1	St. Louis, Mo	Ba
96	INA	Ralph S Saul (59)	541	50	180	109	**879**	6	6	Brooklyn, NY	
621	Indiana National	[33]Thomas W Binford (57)	210	2	60	—	**271**	5	5	Indianapolis, Ind	Administ
795	Indianapolis Pwr & Lt	Zane G Todd (57)	133	2	3	—	**137**	30	5	Hanson, Ky	Oper
537	Industrial National	John J Cummings Jr (58)	294	6	32	—	**331**	34	10	Providence, RI	Fi
691	Indust Valley Bank	Joseph A Gallagher (53)	211	2	3	—	**216**	22	1	Philadelphia, Pa	Ba
796	Inexco Oil	Erving Wolf (55)	137	—	—	—	**137**	13	13	Kimball, Neb	Fi
78	Ingersoll-Rand	[34]William L Wearly (65)	796	43	35	84	**957**	18	13	Warren, Ind	

For FORBES definitions and methodology, see page 114

[31]Succeeded by Michael D. Rose, 5/1/81.
[32]Succeeded by Frank Wobst, 2/26/81.
[33]Succeeded by Thomas M. Miller, 4/29/81.
[34]Succeeded by Thomas A. Holmes, 1/1/81.

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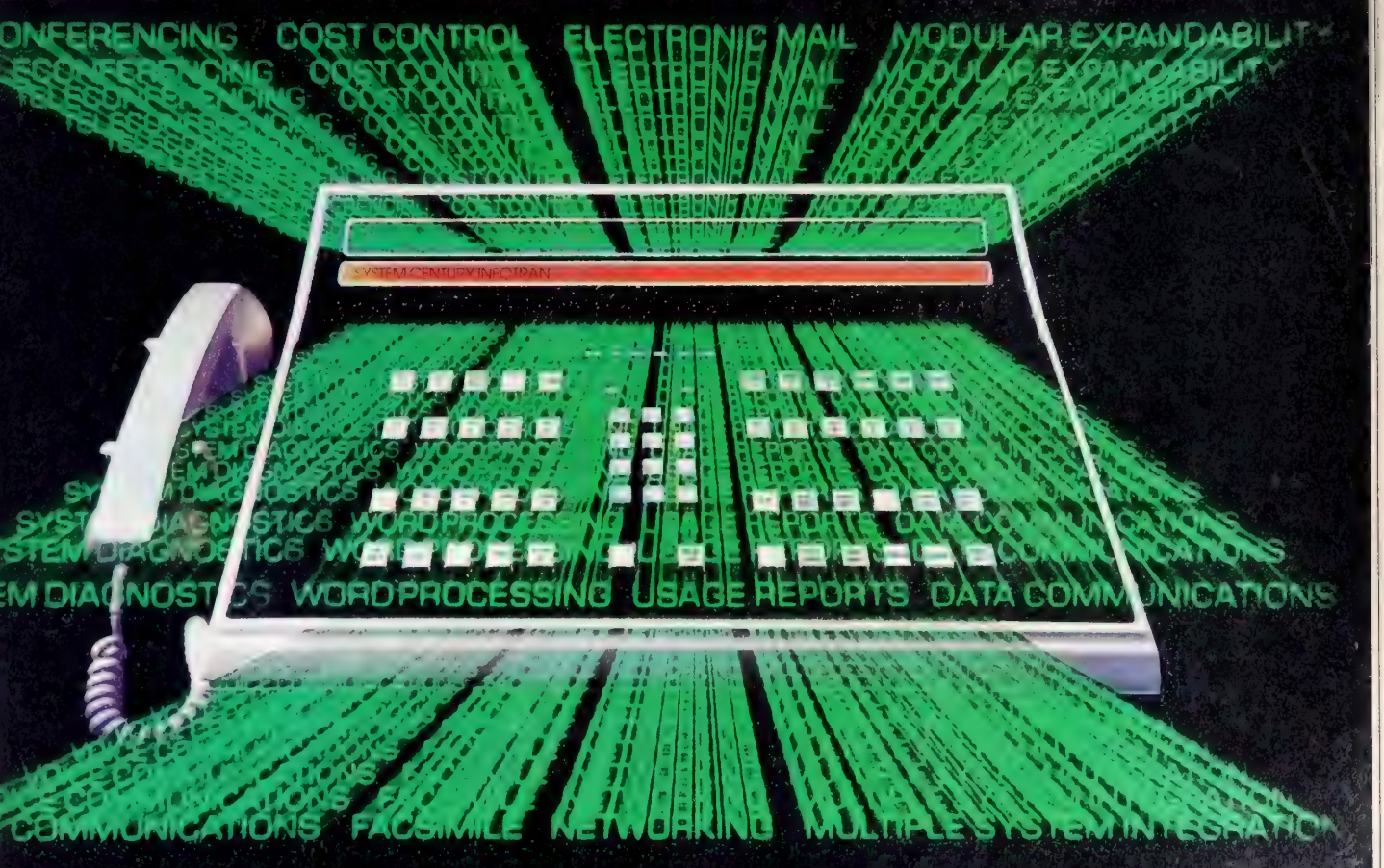

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WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bu back
396	Inland Steel	Frederick G Jaicks (62)	430	—	11	—	**441**	40	9	Chicago, Ill	Proc
534	Intel	Gordon E Moore (52)	296	37	—	—	**333**	12	6	San Francisco, Cal	F
346	Interco	William L Edwards Jr (62)	400	—	84	—	**484**	11	5	Pittsburgh, Pa	E
442	Interlake	Reynold C MacDonald (62)	360	24	21	—	**405**	14	12	Billings, Mont	Ope
45	IBM	[35]Frank T Cary (60)	871	303	—	—	**1,174**	33	8	Gooding, Ida	Ma
523	Intl Flavors & Frag	Henry G Walter Jr (70)	331	8	—	—	**339**	18	18	New York, NY	
37	Intl Harvester	Archie R McCardell (54)	865	65	484	—	**1,414**	3	3	Hazel Park, Mich	E
83	Intl Minerals & Chem	Richard A Lenon (60)	592	36	318	—	**945**	13	10	Lansing, Mich	E
336	Intl Multifoods	William G Phillips (61)	428	27	—	41	**497**	12	12	Cleveland, Ohio	E
152	International Paper	Edwin A Gee (61)	590	82	70	—	**742**	3	1	Washington, DC	Te
46	Intl Tel & Tel	Rand V Araskog (50)	886	129	154	—	**1,170**	15	1	Fergus Falls, Minn	Adminis
297	InterNorth	Sam F Segnar (53)	375	18	94	45	**532**	20	1	Hope, Ark	Te
529	Iowa Beef Processors	Robert L Peterson (48)	325	4	8	—	**336**	10	1	Hartington, Neb	Ope
291	Irving Bank	Gordon T Wallis (61)	538	—	—	—	**538**	40	10	Salt Lake City, Utah	I
228	IU International	John Gilray Christy (48)	563	38	—	7	**608**	9	1	Silver Creek, NY	I
588	Jefferson-Pilot	W Roger Soles (60)	290	2	—	—	**292**	34	13	Whiteville, NC	Inve
135	Jewel Companies	Weston R Christopherson (56)	354	59	238	142	**793**	30	1	Walum, ND	R
380	Jim Walter	James W Walter (58)	419	—	31	—	**450**	35	35	Lewes, Del	F
353	Johns-Manville	John A McKinney (57)	437	15	25	—	**476**	29	4	Huntsville, Tex	
119	Johnson & Johnson	James E Burke (56)	579	135	120	—	**833**	28	4	Rutland, Vt	Ma
288	Joy Manufacturing	James W Wilcock (63)	402	3	92	44	**540**	15	13	Dayton, Ohio	Ma
377	K mart	Bernard M Fauber (58)	450	2	—	—	**452**	39	1	Botetourt Cnty, Va	R
251	Kaiser Alum & Chem	Cornell C Maier (56)	580	—	—	—	**580**	31	8	Herreid, SD	Ope
456	Kaiser Steel	Roland A Kjelland (56)	385	9	—	—	**394**	31	1	Valley City, ND	I
98	Kaneb Services	James R Whatley (55)	371	—	503	—	**875**	26	14	Pittsburg, Tex	Adminis
810	Kansas City Pwr & Lt	Arthur J Doyle (58)	117	1	—	—	**118**	8	1	Boston, Mass	
358	Kellogg	William E LaMothe (54)	450	8	11	—	**469**	30	2	Brooklyn, NY	Ma
739	Kemper	Joseph E Luecke (54)	187	5	—	—	**192**	29	2	Philadelphia, Pa	In
31	Kennecott	Thomas D Barrow (56)	615	574	437	—	**1,626**	2	2	San Antonio, Tex	Te
468	Kerr-McGee	Dean A McGee (77)	375	—	9	—	**384**	44	27	Humboldt, Kan	Pro
594	Key Banks	Victor J Riley Jr (49)	268	—	18	—	**286**	17	7	Buffalo, NY	
125	Kidde	Fred R Sullivan (66)	739	82	—	—	**821**	17	17	Fort Wayne, Ind	
161	Kimberly-Clark	Darwin E Smith (55)	559	—	158	—	**717**	23	9	Garrett, Ind	
460	Knight-Ridder News	Alvah H Chapman Jr (60)	388	4	—	—	**391**	21	5	Columbus, Ga	Admini
631	Koppers	Fletcher L Byrom (62)	250	7	6	—	**263**	33	13	Cleveland, Ohio	Pro
241	Kroger	Lyle Everingham (55)	589	3	—	—	**593**	34	3	Flint, Mich	R
286	Lear Siegler	Robert T Campion (60)	507	13	—	23	**544**	23	10	Minneapolis, Minn	
403	Levi Strauss	Peter E Haas (62)	397	39	—	—	**436**	35	5	San Francisco, Cal	Op
654	Libbey-Owens-Ford	Don T McKone (59)	250	—	—	—	**251**	32	2	Jackson, Mich	Admini
293	Liberty National	John W McLean (59)	173	7	40	318	**538**	13	13	Okmulgee, Okla	I
666	Liberty Natl Ins Hld	Frank P Samford Jr (60)	201	37	—	—	**238**	33	14	Montgomery, Ala	
198	Eli Lilly	Richard D Wood (54)	499	105	—	45	**648**	31	8	Brazil, Ind	Ma
573	Lincoln First Banks	Alexander D Hargrave (61)	267	—	31	—	**299**	18	7	Canandaigua, NY	
535	Lincoln National	Ian M Rolland (48)	304	2	27	—	**333**	25	4	Ft Wayne, Ind	In
258	Litton Industries	Charles B Thornton (67)	534	33	—	—	**567**	27	27	Knox County, Tex	I
301	Lockheed	Roy A Anderson (60)	358	18	13	139	**528**	24	3	Ripon, Cal	
392	Loews	Laurence A Tisch (58)	431	12	—	—	**443**	21	20	Brooklyn, NY	
431	Lone Star Industries	James E Stewart (59)	388	25	—	—	**413**	28	3	Minneapolis, Minn	Admini
755	Long Island Lighting	Charles R Pierce (59)	180	1	—	—	**181**	31	3	Bar Harbor, Me	
256	Louisiana Land	John G Phillips (58)	460	57	54	—	**570**	29	9	Camden, Ark	
394	Louisiana-Pacific	Harry A Merlo (56)	353	53	37	—	**442**	31	7	Stirling City, Cal	Ma

[1]For FORBES definitions and methodology see page 114.

[35]Succeeded by John R. Opel, 1/1/81.

WHO GETS THE MOST PAY

Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Business background
LTV	W Paul Thayer (61)	785	60	13	—	**858**	32	10	Henryetta, Okla	Sales
Lubrizol	Lester E Coleman (50)	374	—	229	120	**723**	26	3	Akron, Ohio	Technical
Lucky Stores	S Donley Ritchey (47)	428	—	—	—	**429**	29	1	Derry Township, Pa	Operations
M/A-Com	Dr Lawrence Gould (50)	301	219	160	—	**681**	27	6	Boston, Mass	Technical
R H Macy	Edward S Finkelstein (56)	368	20	46	111	**545**	32	1	New Rochelle, NY	Retailing
Mallinckrodt	[36]Harold E Thayer (69)	406	18	193	—	**617**	41	15	Rochester, NY	Administration
Malone & Hyde	Joseph R Hyde III (38)	288	—	—	—	**288**	16	12	Memphis, Tenn	Administration
Mfrs Hanover	John F McGillicuddy (50)	492	10	87	—	**590**	22	2	Harrison, NY	Legal
Manufacturers Natl	Dean E Richardson (53)	280	—	—	—	**280**	27	8	West Branch, Mich	Banking
MAPCO	Willis H Thompson Jr (47)	504	3	13	—	**521**	4	1	Minneapolis, Minn	Operations
Marathon Oil	Harold D Hoopman (60)	568	24	—	—	**592**	34	5	Lucas, Kan	Production
Marine	George R Slater (57)	148	3	—	—	**151**	5	3	Indianapolis, Ind	Banking
Marine Midland Bks	Edward W Duffy (55)	421	12	—	—	**432**	28	7	Utica, NY	Banking
Marriott	J Willard Marriott Jr (49)	430	14	59	—	**503**	25	8	Washington, DC	Administration
Marsh & McLennan	John M Regan Jr (60)	488	39	145	—	**672**	35	8	Minneapolis, Minn	Insurance
Marshall & Ilsley	John A Puelicher (60)	162	6	107	—	**275**	35	23	Milwaukee, Wisc	Banking
Marshall Field	Angelo R Arena (53)	439	10	—	—	**449**	3	3	Lynn, Mass	Retailing
Martin Marietta	J Donald Rauth (63)	592	109	178	—	**879**	40	8	Pitman, NJ	Technical
Maryland National	Robert D H Harvey (60)	231	—	1	1	**234**	35	17	Baltimore, Md	Finance
Masco	Richard A Manoogian (44)	496	18	—	—	**514**	23	13	Long Branch, NJ	Administration
May Dept Stores	David C Farrell (48)	438	64	86	—	**588**	25	2	Chicago, Ill	Retailing
Oscar Mayer	Jerry M Hiegel (54)	324	8	40	—	**373**	34	1	Davenport, Iowa	Marketing
MCA	Lew R Wasserman (68)	330	44	—	—	**374**	44	34	Cleveland, Ohio	Sales
McDermott	James E Cunningham (58)	666	108	13	—	**787**	23	2	Cresco, Iowa	Technical
McDonald's	Fred L Turner (48)	375	3	30	—	**408**	24	7	Des Moines, Iowa	Operations
McDonnell Douglas	Sanford N McDonnell (58)	357	49	14	—	**420**	32	9	Little Rock, Ark	Technical
McGraw-Edison	Edward J Williams (58)	481	110	185	80	**856**	9	8	St Louis, Mo	Finance
McGraw-Hill	Harold W McGraw Jr (63)	347	34	132	—	**512**	34	6	New York, NY	Operations
ICI Communications	William G McGowan (54)	142	4	3	—	**149**	12	12	Ashley, Pa	Technical
Rae Consol Oil&Gas	David Kelley (45)	119	—	16	—	**135**	13	1	San Antonio, Tex	Technical
Mead	[37]James W McSwiney (65)	475	7	—	—	**482**	47	1	McEwen, Tenn	Administration
Medtronic	Dale R Olseth (51)	242	17	31	14	**303**	5	5	St James, Minn	Administration
Mellon National	[38]James H Higgins (65)	551	11	13	—	**575**	30	6	Kansas City, Mo	Banking
Melville	Francis C Rooney Jr (59)	459	2	79	172	**712**	28	17	N Brookfield, Mass	Retailing
Mercantile Bancorp	Donald E Lasater (55)	309	8	20	—	**336**	22	10	St Louis, Mo	Legal
Mercantile Stores	Leon F Winbigler (55)	399	21	—	—	**419**	32	6	Brookfield, Mo	Retailing
Mercantile Texas	Gene H Bishop (51)	329	—	26	240	**594**	6	6	Forest, Miss	Banking
Merchants National	Otto N Frenzel III (50)	202	1	—	—	**203**	26	8	Indianapolis, Ind	Banking
Merck	John J Horan (60)	569	1	103	—	**673**	29	5	New York, NY	Legal
Merrill Lynch	[39]Donald T Regan (62)	955	—	—	—	**955**	35	10	Cambridge, Mass	Investment
Mesa Petroleum	Thomas B Pickens Jr (53)	416	169	45	7,236	**7,866**	24	24	Holdenville, Okla	Founder
MGIC Investment	Max H Karl (71)	348	9	80	—	**438**	24	24	Milwaukee, Wisc	Founder
Michigan National	Stanford C Stoddard (50)	242	25	10	—	**277**	27	9	Salt Lake City, Utah	Finance
Middle South Utils	Floyd W Lewis (55)	279	16	—	—	**295**	31	9	Lincoln County, Miss	Legal
Midlantic Banks	Robert Van Buren (56)	315	15	133	—	**463**	10	4	Plainfield, NJ	Banking
Minn Mining & Mfg	Lewis W Lehr (60)	522	—	—	—	**522**	34	2	Elgin, Neb	Technical
Missouri Pacific	Downing B Jenks (65)	632	—	5	—	**637**	20	9	Portland, Ore	Operations
itchell Energy & Dev	George P Mitchell (62)	483	1	71	—	**554**	35	22	Galveston, Tex	Founder
Mobil	Rawleigh Warner Jr (60)	1,455	26	—	—	**1,481**	27	11	Chicago, Ill	Finance
Monsanto	John W Hanley (59)	433	15	–5	—	**444**	8	8	Parkersburg, W Va	Marketing
J P Morgan	Lewis T Preston (54)	595	—	—	—	**595**	30	1	New York, NY	Banking

ORBES definitions and methodology see page 114.

[36]Succeeded by Raymond F. Bentele, 2/10/81
[37]Succeeded by C. Greene Garner, 1/1/81.
[38]Succeeded by J. David Barnes, 3/1/81.
[39]Succeeded by Roger E. Birk, 1/22/81.

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Ba back
448	Morrison-Knudsen	William H McMurren (53)	334	—	65	—	**399**	26	9	Ontario, Ore	Ope
799	Motorola	Robert W Galvin (58)	125	10	—	—	**135**	37	21	Marshfield, Wisc	Admini
472	Murphy Oil	Charles H Murphy Jr (61)	284	—	95	—	**380**	31	31	El Dorado, Ark	F
281	Nabisco	Robert M Schaeberle (58)	429	—	118	—	**547**	34	7	Newark, NJ	I
298	Nalco Chemical	Orell T Collins (58)	353	24	153	—	**530**	25	2	Letcher County, Ky	
157	National Can	Frank W Considine (59)	428	35	28	232	**724**	19	8	Chicago, Ill	
707	Natl Central Financl	Wilson D McElhinny (51)	172	—	30	9	**210**	17	6	Detroit, Mich	E
467	National City	[40]Claude M Blair (68)	220	—	151	15	**386**	14	9	Columbia, Tenn	
75	National Distillers	Drummond C Bell (65)	457	—	87	444	**988**	24	10	Baltimore, Md	I
423	National Gypsum	Robert E Scifres (63)	390	9	1	19	**419**	39	3	Lafayette, Ind	Ope
16	Natl Medical Entrprs	Richard K Eamer (53)	443	273	—	1,620	**2,337**	12	12	Long Beach, Cal	F
652	Natl Semiconductor	Charles E Sporck (53)	210	6	36	—	**252**	14	14	Saranac Lake, NY	Pro
482	National Steel	Howard M Love (51)	350	15	8	—	**373**	25	1	Pittsburgh, Pa	Ope
733	National Tea	Valdyn W Schulz (52)	199	—	—	—	**199**	7	5	Edgeley, ND	Admini
758	Nationwide	Dean W Jeffers (64)	176	—	1	—	**177**	41	9	Woodsfield, Ohio	Ma
328	Natomas	Dorman L Commons (63)	478	30	—	—	**508**	8	7	Denair, Cal	I
440	NBD Bancorp	Robert M Surdam (63)	401	5	—	—	**407**	34	13	Albany, NY	I
507	NCNB	Thomas I Storrs (62)	331	15	—	2	**348**	20	7	Nashville, Tenn	E
148	NCR	William S Anderson (62)	535	2	168	41	**746**	35	7	China	Ma
744	New England Electric	Guy W Nichols (55)	183	3	2	—	**188**	33	9	Colchester, Vt	Admini
725	New England Merch	Roderick M MacDougall (55)	200	3	—	—	**203**	7	2	New York, NY	E
793	N Y State Elec & Gas	Charles F Kennedy (66)	140	—	—	—	**140**	7	4	Elmira, NY	Te
375	Newmont Mining	Plato Malozemoff (71)	450	—	3	—	**452**	35	27	Russia	Admini
749	Niagara Mohawk Pwr	John G Haehl Jr (58)	177	—	5	—	**183**	19	8	Brooklyn, NY	
270	NICOR	Clarence J Gauthier (59)	392	105	60	—	**557**	35	10	Houghton, Mich	Te
8	NL Industries	Ray C Adam (61)	662	22	247	2,162	**3,093**	9	6	Aquilla, Tex	Admini
453	NLT	Russell L Wagner (65)	377	18	—	—	**395**	41	3	Marengo, Iowa	In
427	Noble Affiliates	Roy Butler (55)	270	14	—	132	**415**	25	1	Rising Star, Tex	Ope
312	Norfolk & Western Ry	John P Fishwick (64)	486	21	12	—	**519**	35	11	Roanoke, Va	
344	North Amer Philips	Pieter C Vink (61)	475	10	—	—	**485**	16	12	The Netherlands	Ma
713	Northeast Utilities	Lelan F Sillin Jr (63)	209	—	—	—	**209**	13	11	Tampa, Fla	
627	No Calif Savings	Firmin A Gryp (53)	215	—	—	51	**266**	29	11	Monterey, Cal	Admini
777	No Indiana Pub Svc	Edmund A Schroer (53)	152	—	—	—	**152**	4	4	Hammond, Ind	
723	No States Power	Donald W McCarthy (59)	201	3	—	—	**204**	33	4	Minneapolis, Minn	Ope
214	Northern Trust	[41]E Norman Staub (65)	326	47	250	—	**624**	27	2	Newark, NJ	
81	Northrop	Thomas V Jones (60)	932	18	3	—	**953**	27	21	Pomona, Cal	Admini
570	Northwest Airlines	M Joseph Lapensky (62)	300	—	—	—	**300**	36	2	Minneapolis, Minn	
569	Northwest Bancorp	Chester C Lind (62)	284	—	17	—	**301**	45	1	Firesteel, SD	I
263	Northwest Energy	John G McMillian (54)	504	22	37	—	**564**	8	7	Orange City, Tex	Admini
352	Northwest Industries	Ben W Heineman (67)	439	38	—	—	**476**	25	25	Wausau, Wisc	
763	Northwestern Finl	Ben T Craig (48)	167	4	—	—	**171**	3	3	Gastonia, NC	
357	Norton	Donald R Melville (54)	308	14	—	151	**473**	14	1	England	Ma
33	Norton Simon	David J Mahoney (58)	933	265	300	—	**1,498**	14	11	New York, NY	Ma
132	Occidental Petroleum	Armand Hammer (83)	690	22	87	—	**799**	23	23	New York, NY	
57	Ogden	Ralph E Ablon (65)	840	12	227	—	**1,080**	26	19	Tupelo, Miss	Admini
664	Ohio Casualty	John G Sloneker (59)	205	14	21	—	**240**	33	2	Hamilton, Ohio	In
786	Ohio Edison	Justin T Rogers Jr (51)	148	—	—	—	**148**	22	1	Sandusky, Ohio	
789	Oklahoma Gas & Elec	James G Harlow Jr (47)	135	10	—	—	**144**	20	5	Oklahoma City, Okla	
589	Old Kent Financial	Richard M Gillett (57)	207	6	39	39	**290**	23	17	Grand Rapids, Mich	Admini
641	Old Stone	Theodore W Barnes (50)	189	31	37	—	**256**	33	5	Providence, RI	
197	Olin	John M Henske (58)	537	15	84	14	**650**	12	3	Omaha, Neb	Op

[1]For FORBES definitions and methodology see page 114.

[40]Succeeded by Julien L. McCall, 1/1/81

[41]Succeeded by Philip W.K. Sweet Jr., 3/17/81.

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WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	I bac
568	Overseas Shipholding	Morton P Hyman (45)	301	—	—	—	**301**	11	9	New York, NY	
536	Owens-Corning Fbrgls	William W Boeschenstein (55)	319	1	12	—	**332**	30	8	Chicago, Ill	M
94	Owens-Illinois	Edwin D Dodd (62)	613	107	170	—	**890**	34	8	Point Pleasant, W Va	Pr
376	PACCAR	Charles M Pigott (52)	442	—	10	—	**452**	25	13	Seattle, Wash	Admin
612	Pacific Gas & Elec	Frederick W Mielke Jr (60)	270	8	—	—	**278**	30	2	New York, NY	
561	Pacific Lighting	Paul A Miller (56)	298	10	—	—	**308**	32	12	San Francisco, Cal	
601	Pacific Lumber	Robert B Hoover (65)	224	—	59	—	**283**	41	5	Fresno, Cal	
740	Pacific Pwr & Lt	Don C Frisbee (57)	191	1	—	—	**192**	27	15	San Francisco, Cal	
470	Paine Webber	Donald B Marron (46)	381	—	—	—	**381**	22	1	Goshen, NY	Inv
560	Pall	Abraham Kransoff (61)	235	13	60	—	**308**	30	12	Newark, NJ	
435	Pan Am World Airways	William T Seawell (63)	298	20	90	—	**409**	9	9	Pine Bluff, Ark	Op
365	Panhandle Eastern	Richard L O'Shields (54)	337	8	17	101	**463**	21	11	Ozark, Ark	P
785	Parker Drilling	Robert L Parker (57)	148	—	—	—	**148**[12]	34	27	Tulsa, Okla	T
491	Parker-Hannifin	Patrick S Parker (51)	343	26	—	—	**369**	28	9	Cleveland, Ohio	Admin
143	Parsons	William E Leonhard (66)	469	14	286	—	**768**	14	5	Middletown, Pa	T
370	Peabody Intl	John E McConnaughy Jr (52)	247	28	57	125	**456**	12	12	Pittsburgh, Pa	
29	Penn Central	Richard Dicker (67)	1,448	—	200	—	**1,648**	2	2	New York, NY	Inv
322	PennCorp Financial	[42]Stanley Beyer (49)	405	2	105	—	**511**	30	8	New York, NY	I
314	J C Penney	Donald V Seibert (57)	500	—	16	—	**516**	33	6	Hamilton, Ohio	
780	Pa Power & Light	Robert K Campbell (51)	150	—	—	—	**150**	4	2	Chicago, Ill	T
564	Pennwalt	Edwin E Tuttle (54)	302	1	—	—	**303**	30	3	Syracuse, NY	
74	Pennzoil	J Hugh Liedtke (59)	491	93	405	—	**989**	25	18	Tulsa, Okla	
555	Peoples Energy	Orval C Davis (61)	287	—	27	—	**313**	34	3	Roseclare, Ill	T
71	PepsiCo	Donald M Kendall (60)	660	5	334	—	**999**	34	18	Sequim, Wash	M
257	Perkin-Elmer	Robert H Sorensen (60)	170	—	197	201	**568**	21	3	Racine, Wisc	T
124	Petro-Lewis	Jerome A Lewis (54)	284	2	18	518	**822**	13	13	Wichita, Kan	
147	Petrolane	Rudolph J Munzer (63)	403	18	—	327	**748**	34	24	Minneapolis, Minn	
433	Petrolite	Ellis L Brown (65)	354	—	1	55	**410**	15	15	Duncan, Okla	T
223	Pfizer	Edmund T Pratt Jr (54)	583	19	—	12	**614**	16	8	Savannah, Ga	
335	Phelps Dodge	George B Munroe (59)	371	19	75	33	**497**	23	11	Joliet, Ill	
727	Phila Electric	James L Everett (54)	203	—	—	—	**203**	31	3	Charlotte, NC	T
616	Philadelphia Natl	G Morris Dorrance Jr (58)	276	—	—	—	**276**	29	12	Philadelphia, Pa	
363	Phila Suburban	James M Ballengee (58)	403	59	2	—	**464**	19	12	Charleston, W Va	
144	Philip Morris	George Weissman (61)	750	12	—	—	**761**	29	2	New York, NY	N
133	Phillips Petroleum	William C Douce (61)	350	23	425	—	**798**	39	1	Kingman, Kan	O
249	Pillsbury	William H Spoor (58)	484	23	75	—	**582**	31	8	Pueblo, Colo	O
668	Pioneer	K Bert Watson (56)	238	4	–6	—	**236**	28	8	Ranger, Tex	
752	Pioneer Hi-Bred Intl	[43]Dr William L Brown (67)	182	—	—	—	**182**	36	5	Arbovale, W Va	T
338	Pitney Bowes	Fred T Allen (64)	385	—	107	—	**492**	42	7	Providence, RI	O
473	Pittsburgh National	Merle E Gilliand (59)	355	—	24	—	**379**	28	11	Pitcairn, Pa	
39	Pittston	Nicholas T Camicia (65)	485	37	76	741	**1,339**	12	11	Welch, W Va	O
590	Pogo Producing	William C Liedtke Jr (56)	248	40	—	—	**289**	11	3	Tulsa, Okla	O
567	Polaroid	William J McCune Jr (66)	299	—	3	—	**302**	41	1	Glens Falls, NY	
800	Portland Genl Elec	Robert H Short (56)	127	2	4	—	**133**	26	1	Klamath Falls, Ore	
115	Potlatch	Richard B Madden (52)	448	8	8	375	**838**	10	10	Orange, NJ	
671	Potomac Elec Power	W Reid Thompson (56)	231	3	—	—	**234**	10	10	Durham, NC	
305	PPG Industries	L Stanton Williams (61)	447	65	12	—	**524**	35	2	Honolulu, Haw	
388	Prime Computer	Kenneth G Fisher (50)	418	27	—	—	**445**	5	5	Omaha, Neb	N
154	Procter & Gamble	[44]Edward G Harness (62)	584	37	119	—	**740**	41	7	Marietta, Ohio	N
791	Provident Life & Acc	H Carey Hanlin (56)	142	—	—	—	**142**	32	2	Chattanooga, Tenn	
521	Provident National	Roger S Hillas (54)	251	—	—	89	**340**	30	7	Wyncote, Pa	

[1]For FORBES definitions and methodology see page 114.

[12]Figures are for 1979.
[42]Office jointly held with Burton Borman.
[43]Succeeded by Thomas N. Urban, 1/27/81
[44]Succeeded by John G. Smale, 1/5/81

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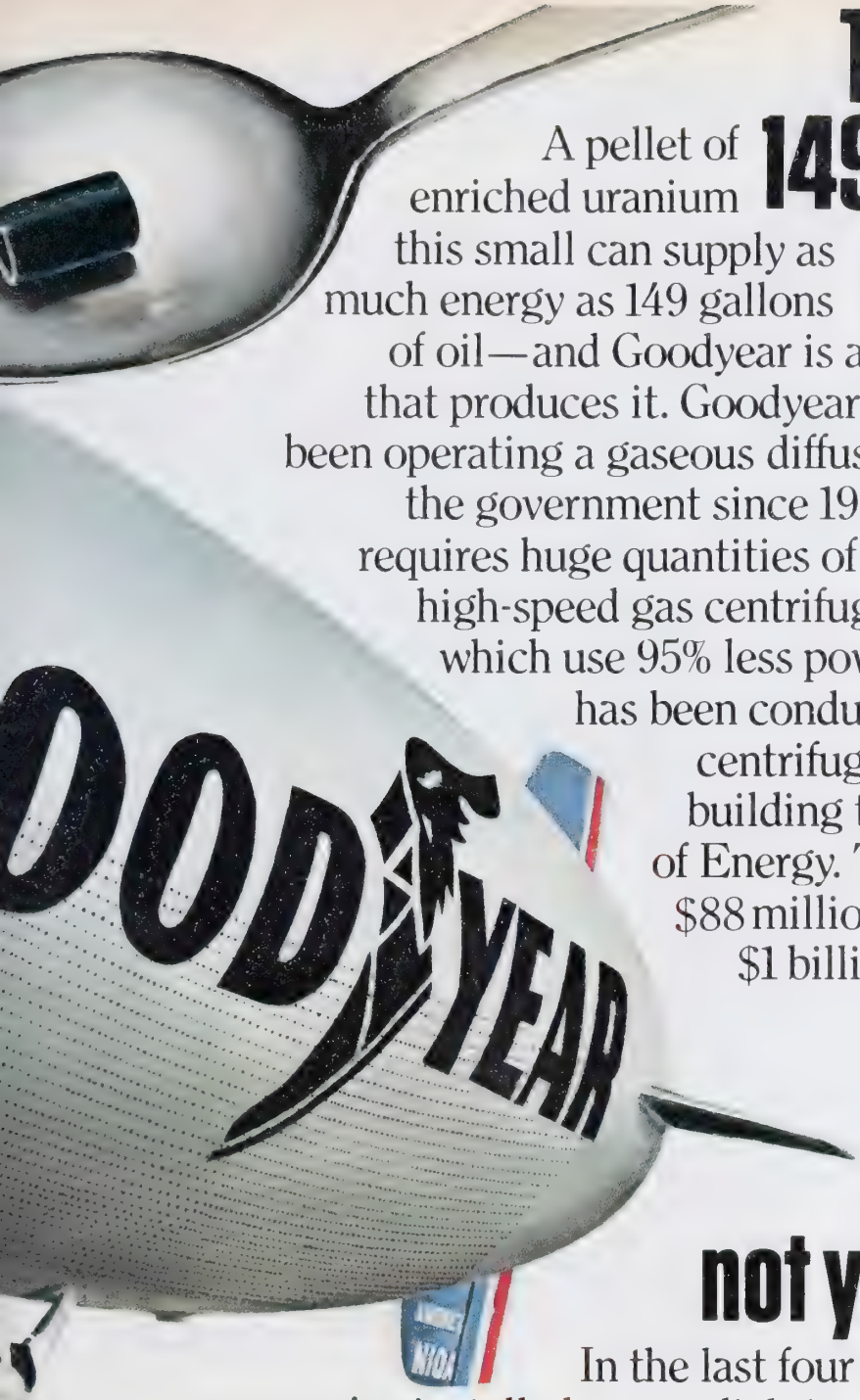

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A pellet of enriched uranium this small can supply as much energy as 149 gallons of oil—and Goodyear is a leader in the technology that produces it. Goodyear Atomic Corporation has been operating a gaseous diffusion enrichment plant for the government since 1952. But gaseous diffusion requires huge quantities of electric power. Recently, high-speed gas centrifuges have been developed, which use 95% less power. Goodyear Aerospace has been conducting research into these centrifuges since 1972 and is now building them for the Department of Energy. The initial contract is for $88 million. Ultimately, more than $1 billion worth will be needed.

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In the last four years, we've installed new radial tire pacity that stands at the leading edge of production technology. Result: radial tires of excellent quality at highly competitive costs. We've also oped new ways to generate ideas. Result: a flood of innovations ranging rom automatic quality control for tire presses to entirely new products like portable safety bumps. That's why we're a world leader in so many fields—from conveyor belts to aircraft tires, from packaging films to anium enrichment. And why we're ot your ordinary tire company.

GOODYEAR

Out front. World wide.

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	B back
781	Public Service Colo	Richard F Walker (57)	150	—	—	—	**150**	31	2	Alliance, Neb	Te
769	Public Service Ind	Hugh A Barker (55)	160	2	—	—	**162**	22	4	Stillwater, Minn	I
812	Public Service N H	William C Tallman (61)	110	—	—	—	**110**	35	16	Newton, Mass	Te
681	Public Service N M	Jerry D Geist (47)	203	1	20	—	**224**	21	5	Raton, NM	Te
653	Pub Svc Elec & Gas	Robert I Smith (62)	234	17	—	—	**251**	40	5	Arlington, NJ	Te
342	Quaker Oats	Robert D Stuart Jr (65)	440	7	44	—	**491**	34	14	Hubbard Woods, Ill	Ma
397	Rainier Bancorp	G Robert Truex Jr (57)	250	2	54	135	**441**	7	7	Red Bank, NJ	E
168	Ralston Purina	[45]R Hal Dean (65)	550	36	123	—	**709**	42	13	Mitchell, SD	Op
670	Raychem	Paul M Cook (57)	234	—	—	—	**234**	24	24	Ridgewood, NJ	I
272	Raytheon	Thomas L Phillips (57)	552	3	—	—	**555**	33	12	Turkey	Te
77	RCA	[46]Edgar H Griffiths (60)	585	18	220	134	**957**	32	4	Philadelphia, Pa	
193	Reading & Bates	John W Bates Jr (61)	296	204	157	—	**656**	35	14	Spirit Lake, Iowa	Admini
63	Reliance Group	Saul P Steinberg (41)	1,007	34	5	—	**1,047**	20	20	New York, NY	I
326	Republic New York	Walter H Weiner (50)	496	1	12	—	**509**	1	1	New York, NY	
404	Republic of Texas	James D Berry (60)	359	6	72	—	**436**	31	4	Sapulpa, Okla	E
313	Republic Steel	William J De Lancey (65)	479	38	—	—	**518**	29	7	Chicago, Ill	Admini
304	Revco D S	Sidney Dworkin (60)	219	97	209	—	**525**	25	14	Detroit, Mich	I
56	Revlon	Michel C Bergerac (49)	1,083	2	5	—	**1,090**	6	6	France	Admini
160	Rexnord	Robert V Krikorian (61)	350	—	368	—	**718**	30	1	New Haven, Conn	Op
88	R J Reynolds Inds	J Paul Sticht (63)	705	3	124	80	**913**	8	3	Clairton, Pa	Ma
123	Reynolds Metals	David P Reynolds (66)	455	1	367	—	**823**	44	5	Bristol, Tenn	Ma
458	Richardson-Vicks	John S Scott (55)	340	21	31	—	**392**	30	5	West Orange, NJ	Ma
662	Riggs Natl Bank	Vincent C Burke Jr (58)	240	—	—	—	**240**	26	5	Louisville, Ky	I
503	Roadway Express	William F Spitznagel (54)	323	1	29	—	**354**	31	3	Fairfield, Ala	Op
10	Rockwell Intl	Robert Anderson (60)	865	19	920	1,164	**2,967**	13	7	Columbus, Neb	Te
172	Rohm & Haas	Vincent L Gregory Jr (58)	549	8	137	—	**694**	31	10	Oil City, Pa	
505	Rollins	O Wayne Rollins (69)	350	—	—	—	**350**	33	33	Ringgold, Ga	
634	ROLM	M Kenneth Oshman (40)	260	—	—	—	**260**	12	12	Kansas City, Mo	
19	Rowan Companies	C Robert Palmer (46)	200	—	1	2,064	**2,265**	28	9	Gorman, Tex	Te
200	Ryder System	Leslie O Barnes (64)	305	16	91	232	**644**	5	5	Canisteo, NY	Admini
60	Sabine	Ashley H Priddy (59)	250	38	—	769	**1,057**	32	12	Wichita Falls, Tex	Te
518	Safeco	Roland M Trafton (61)	266	—	26	50	**342**	28	2	Los Angeles, Cal	
525	Safeway Stores	Peter A Magowan (39)	325	—	13	—	**338**	13	1	New York, NY	Admini
51	St Joe Minerals	John C Duncan (60)	413	37	117	557	**1,123**	10	9	New York, NY	Op
499	St Paul Companies	Carl B Drake Jr (61)	332	1	25	—	**358**	39	8	St Paul, Minn	In
255	St Regis Paper	William R Haselton (56)	348	171	52	—	**571**	28	2	Glens Falls, NY	Op
756	San Diego Gas & Elec	Robert E Morris (59)	175	—	5	—	**180**	15	5	Parsons, Kan	Ma
643	Sanders Associates	Jack L Bowers (60)	227	4	25	—	**256**	4	2	Colorado Springs, Colo	Admini
208	Santa Fe Industries	John S Reed (64)	570	3	59	—	**632**	41	8	Chicago, Ill	Op
149	Santa Fe Intl	Edfred L Shannon Jr (55)	315	31	26	374	**746**	27	18	Durant, Okla	Te
185	Schering-Plough	Richard J Bennett (64)	588	33	46	—	**667**	34	2	Brooklyn, NY	
179	Schlumberger	Jean Riboud (61)	500	175	—	—	**675**	30	16	France	
153	SCM	Paul H Elicker (58)	589	3	150	—	**742**	24	9	New York, NY	
438	Scott Paper	Charles D Dickey Jr (63)	398	2	8	—	**407**	34	10	New York, NY	Op
476	Seafirst	William M Jenkins (62)	323	26	28	—	**376**	35	18	Sultan, Wash	
102	G D Searle	Donald H Rumsfeld (48)	441	425	—	—	**866**	4	4	Chicago, Ill	Inv
233	Sears Roebuck	Edward R Telling (62)	601	—	—	—	**601**	35	3	Danville, Ill	F
656	Seatrain Lines	Howard M Pack (63)	200	41	7	—	**247**	30	30	New York, NY	
282	Security Pacific	Richard J Flamson III (52)	537	10	—	—	**546**	26	2	Los Angeles, Cal	
682	SEDCO	B Gill Clements (39)	207	12	3	—	**223**	12	2	Dallas, Tex	
674	Shawmut	John P LaWare (53)	192	—	40	—	**231**	2	1	Columbus, Wisc	

[1]For FORBES definitions and methodology see page 114.

[45]To be succeeded by William P. Stiritz, 7/1/81.
[46]Succeeded by Thornton F. Bradshaw, 7/1/81.

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Newsweek
THE INTERNATIONAL NEWSMAGAZINE

A MAGAZINE, NOT AN EDITION

WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bu back
474	Shearson Loeb Rhoades	Sanford I Weill (48)	352	—	26	—	**378**	21	7	New York, NY	F
25	Shell Oil	John F Bookout (58)	740	63	143	960	**1,905**	30	5	Shreveport, La	Tec
162	Sherwin-Williams	John G Breen (46)	534	13	11	160	**717**	2	2	Cleveland, Ohio	Ope
813	Sigmor	Tom E Turner (67)	100	—	—	—	**100**	29	29	Ft Worth, Tex	F
145	Signal Companies	Forrest N Shumway (54)	460	57	242	—	**760**	24	13	Skowhegan, Me	
374	Singer	Joseph B Flavin (52)	453	—	—	—	**453**	5	5	St Louis, Mo	F
369	Smith International	Jerry W Neely (44)	440	5	13	—	**458**	15	4	Torrance, Cal	Ope
354	SmithKline	Robert F Dee (56)	438	20	18	—	**476**	32	9	Cincinnati, Ohio	Adminis
459	Society	J Maurice Struchen (60)	306	16	35	35	**392**	11	5	Cleveland, Ohio	F
788	So Carolina E & G	Virgil C Summer (60)	140	2	4	—	**147**	43	1	Spartanburg, SC	Ope
579	South Carolina Natl	[47]John H Lumpkin (65)	150	25	120	—	**295**	16	12	Fairbanks, Alas	I
613	Southeast Banking	Charles J Zwick (54)	253	6	—	18	**278**	12	1	Plantsville, Conn	I
775	Southern Bancorp Ala	Wallace D Malone Jr (44)	152	—	—	—	**152**	22	1	Dothan, Ala	E
660	So Calif Edison	William R Gould (62)	225	12	7	—	**244**	33	1	Provo, Utah	Te
571	Southern Company	Alvin W Vogtle Jr (62)	288	11	—	—	**300**	40	11	Birmingham, Ala	
644	So Natural Resources	Henry C Goodrich (61)	253	3	—	—	**256**	1	1	Fayetteville, Tenn	Te
711	So New England Tel	Alfred W Van Sinderen (57)	194	5	10	—	**210**	33	13	Brooklyn, NY	Ope
156	Southern Pacific	Benjamin F Biaggini (65)	625	—	12	91	**727**	44	13	New Orleans, La	Te
550	Southern Railway	Harold H Hall (55)	270	1	50	—	**320**	38	1	Andrews, NC	Ope
337	Southland	John P Thompson (55)	429	31	34	—	**494**	32	20	Dallas, Tex	
13	Southland Royalty	Jon Brumley (42)	298	39	26	2,018	**2,380**	14	7	Pampa, Tex	Admini
585	Southwest Bancshs	John T Cater (45)	280	2	10	—	**292**	4	4	Temple, Tex	I
91	Sperry	J Paul Lyet (64)	595	43	70	192	**900**	37	8	Philadelphia, Pa	
324	Square D	Mitchell P Kartalia (68)	500	—	—	10	**510**	40	13	Yukon, Pa	Ma
323	Squibb	Richard M Furlaud (58)	520	—	—10	—	**510**	25	15	New York, NY	
278	A E Staley Mfg	Donald E Nordlund (59)	425	7	119	—	**551**	25	8	Stromsburg, Neb	Admini
76	Standard Brands	F Ross Johnson (49)	555	16	391	—	**963**	10	5	Winnipeg, Can	
84	Standard Oil Calif	[48]Harold J Haynes (55)	935	1	—	—	**936**	34	7	Fort Worth, Tex	Pro
11	Standard Oil Ind	John E Swearingen (62)	680	31	—	2,207	**2,917**	42	20	Columbia, SC	Pro
59	Standard Oil Ohio	Alton W Whitehouse Jr (53)	486	23	131	423	**1,062**	12	3	Albany, NY	
645	State Street Boston	William S Edgerly (54)	251	5	—	—	**256**	5	5	Lewiston, Me	
465	Stauffer Chemical	H Barclay Morley (52)	294	2	91	—	**387**	18	7	Sydney, Can	T
379	Sterling Drug	Dr W Clarke Wescoe (61)	420	7	23	—	**451**	11	7	Allentown, Pa	T
417	J P Stevens	Whitney Stevens (55)	350	14	—	59	**423**	33	1	Plainfield, NJ	Admini
598	Stop & Shop	Avram J Goldberg (51)	282	2	—	—	**284**	23	2	Boston, Mass	
62	Storage Technology	Jesse I Aweida (50)	550	2	500	—	**1,052**	11	11	Palestine	
806	Sumitomo Bank Cal	Nimei Akamatsu (52)	113	9	—	—	**122**	8	2	Japan	
732	Sun Banks of Florida	Richard F Livingston (61)	200	—	—	—	**200**	40	7	Daytona Beach, Fla	
82	Sun Company	Theodore A Burtis (59)	572	22	271	83	**949**	14	2	Jamaica, NY	T
604	Sunbeam	Robert P Gwinn (74)	279	2	—	—	**281**	45	26	Anderson, Ind	
385	Sundstrand	Evans W Erikson (54)	350	25	73	—	**448**	29	1	Rockford, Ill	T
517	Super Valu Stores	[49]Jack J Crocker (56)	342	1	—	—	**343**	8	8	Portland, Ore	I
213	Superior Oil	Joseph E Reid (52)	601	24	—	—	**625**	8	1	Meridian, Miss	T
409	Supermarkets General	Herbert Brody (66)	422	4	6	—	**432**	25	1	Philadelphia, Pa	
544	Supron Energy	Alvin M Wiederkehr (58)	304	13	7	—	**324**	29	9	Freer, Tex	O
605	Sysco	John F Baugh (65)	281	—	—	—	**281**	35	11	Waco, Tex	
808	Tandem Computers	James G Treybig (40)	120	—	—	—	**120**	6	6	Clarendon, Tex	
266	Tandy	[50]Phil R North (62)	500	60	—	—	**560**	15	2	Fort Worth, Tex	Admi
625	Tektronix	Earl Wantland (49)	201	14	21	32	**268**	26	6	Bridge, Ore	Admin
807	Tele-Communications	John C Malone (40)	120	—	—	—	**121**	8	8	Milford, Conn	Admin
191	Teledyne	Henry E Singleton (64)	650	9	—	—	**659**	20	20	Haslet, Tex	

[1]For FORBES definitions and methodology see page 114.

[47]Succeeded by James G. Lindley, 2/1/81.
[48]Succeeded by George M. Keller, 5/5/81.
[49]To be succeeded by Michael W. Wright, 6/26/81.
[50]To be succeeded by John V. Roach, 7/1/81.

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WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bu back
332	Teleprompter	Jack K Cooke (69)	500	—	—	—	**500**	15	9	Hamilton, Can	Adminis
69	Tenneco	James L Ketelsen (50)	556	11	441	—	**1,009**	14	2	Davenport, Iowa	F
728	Tenn Valley Bancorp	William F Earthman (55)	168	27	7	—	**201**	27	9	Nashville, Tenn	F
188	Tesoro Petroleum	Robert V West Jr (60)	556	12	95	—	**663**	25	16	Kansas City, Mo	F
86	Texaco	John K McKinley (61)	783	144	—	—	**927**	40	1	Tuscaloosa, Ala	Te
651	Texas American Bshs	Lewis H Bond (59)	242	—	11	—	**253**	29	18	Ashport, Tenn	B
173	Texas Commerce Bshs	Ben F Love (56)	467	18	199	—	**684**	14	8	Vernon, Tex	B
432	Texas Eastern	I David Bufkin (59)	300	48	62	—	**410**	32	1	Haynesville, La	Te
204	Texas Gas Transmn	Dennis R Hendrix (41)	454	19	—	166	**638**	8	3	Selmer, Tenn	F
131	Texas Instruments	Mark Shepherd Jr (58)	558	217	26	—	**802**	33	12	Dallas, Tex	Te
461	Texas Oil & Gas	William L Hutchison (49)	390	—	—	—	**390**	23	5	Dallas, Tex	
642	Texas Utilities	T Louis Austin Jr (62)	244	12	—	—	**256**	28	8	Trenton, Tenn	Proc
118	Texasgulf	[51]Charles F Fogarty (60)	440	104	64	227	**835**	29	7	Denver, Colo	Te
393	Textron	Robert P Straetz (59)	366	36	35	6	**443**	35	1	Hillside, NJ	
766	Third National	Charles J Kane (61)	157	5	4	—	**166**	6	5	Louisville, Ky	B
64	Tidewater	John P Laborde (58)	417	12	56	540	**1,025**	25	5	Marksville, La	
166	Tiger International	Wayne M Hoffman (58)	456	106	149	—	**711**	13	10	Chicago, Ill	
371	Time Inc	J Richard Munro (50)	373	38	2	43	**455**	23	1	Syracuse, NY	Ope
253	Times Mirror	[52]Franklin D Murphy (65)	474	104	—	—	**578**	12	12	Kansas City, Mo	Adminis
553	Timken	William R Timken Jr (42)	315	—	—	—	**315**	18	6	Canton, Ohio	Adminis
774	Toledo Edison	John P Williamson (59)	146	5	4	—	**155**	30	8	Cleveland, Ohio	I
802	Tom Brown	Thomas C Brown (54)	101	28	—	—	**129**	25	25	Akron, Ohio	F
479	Tosco	Morton M Winston (50)	301	31	42	—	**375**	17	5	New York, NY	
526	Trans World	L Edwin Smart (57)	228	1	107	1	**337**	14	4	Columbus, Ohio	
128	Transamerica	[53]John R Beckett (63)	795	19	—	—	**814**	20	15	San Francisco, Cal	Adminis
43	Transco Companies	William J Bowen (59)	383	37	—	789	**1,209**	6	6	Sweetwater, Tex	Ope
669	TRANSOHIO Financial	Warner B Bishop (62)	214	3	18	—	**235**	18	18	Lakewood, Ohio	Adminis
295	Travelers	[54]Morrison H Beach (64)	512	9	12	—	**533**	41	8	Winsted, Conn	Ins
697	Trust Co of Georgia	Robert Strickland (54)	187	—	28	—	**215**	32	4	Atlanta, Ga	I
187	TRW	Ruben F Mettler (57)	642	22	—	—	**664**	26	3	Shafter, Cal	Te
767	Tucson Electric Pwr	Theodore M Welp (47)	144	20	—	—	**164**	7	5	San Francisco, Cal	I
566	Turner Construction	Walter B Shaw (61)	289	—	13	—	**302**	40	4	New York, NY	Ope
66	Twentieth Century-Fox	Dennis C Stanfill (54)	994	23	—	—	**1,017**	11	9	Centerville, Tenn	I
629	Tymshare	Thomas J O'Rourke (57)	263	3	—	—	**266**	15	15	Red Lodge, Mont	F
492	U S Air	Edwin I Colodny (55)	272	5	—	88	**364**	23	5	Burlington, Vt	
500	UAL	Richard J Ferris (45)	345	13	—	—	**358**	9	2	Sacramento, Cal	Admini
413	Union Camp	Peter J McLaughlin (52)	301	—	128	—	**428**	35	1	New York, NY	
151	Union Carbide	William S Sneath (55)	732	11	—	—	**743**	30	4	Buffalo, NY	
784	Union Commerce	Lyman H Treadway (51)	149	—	—	—	**149**	11	2	Cleveland, Ohio	I
658	Union Electric	Charles J Dougherty (62)	241	4	—	—	**246**	40	13	Clayton, Mo	
7	Union Oil California	Fred L Hartley (64)	876	370	463	1,419	**3,129**	42	16	Vancouver, Can	Te
79	Union Pacific	James H Evans (61)	935	10	10	—	**955**	12	3	Lansing, Mich	Admini
595	Uniroyal	Joseph P Flannery (49)	265	21	—	—	**286**	22	1	Lowell, Mass	Ma
626	United Bank Corp NY	Peter D Kiernan (57)	256	6	5	—	**268**	7	7	Albany, NY	In
761	United Banks of Colo	N Berne Hart (51)	147	—	26	—	**173**	27	2	Denver, Colo	I
247	United Brands	Seymour Milstein (60)	584	3	—	—	**587**	6	4	New York, NY	Op
351	Utd Energy Resources	J Hugh Roff Jr (49)	402	60	16	—	**477**	7	7	Wewoka, Okla	
811	United Jersey Banks	[55]Richard L Wines (43)	117	—	—	—	**117**	10	1	New York, NY	I
676	United Missouri Bshs	R Crosby Kemper (54)	206	4	17	—	**228**	31	11	Kansas City, Mo	Admini
466	U S Bancorp	John A Elorriaga (57)	321	16	—	50	**386**	30	6	Jordan Valley, Ore	Admini
447	U S Fidelity & Gty	Jack Moseley (50)	220	—	—	180	**401**	28	1	Birmingham, Ala	In

[1]For FORBES definitions and methodology see page 114.

[51]Deceased, succeeded by Richard D. Mollison, 2/12/81.
[52]Succeeded by Robert F. Erburu, 1/1/81.
[53]Succeeded by James R. Harvey, 1/1/81.
[54]Succeeded by Edward H. Budd, 4/6/81.
[55]Succeeded by T. Joseph Semrod, 4/2/81.

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May 8, 1981

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Heizer Corporation

Common Stock

(Par Value $.01)

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L. F. Rothschild, Unterberg, Towbin

Salomon Brothers

Smith Barney, Harris Upham & Co. Incorporated

Warburg Paribas Becker A. G. Becker

Wertheim & Co., Inc.

Dean Witter Reynolds Inc.

Hambrecht & Quist

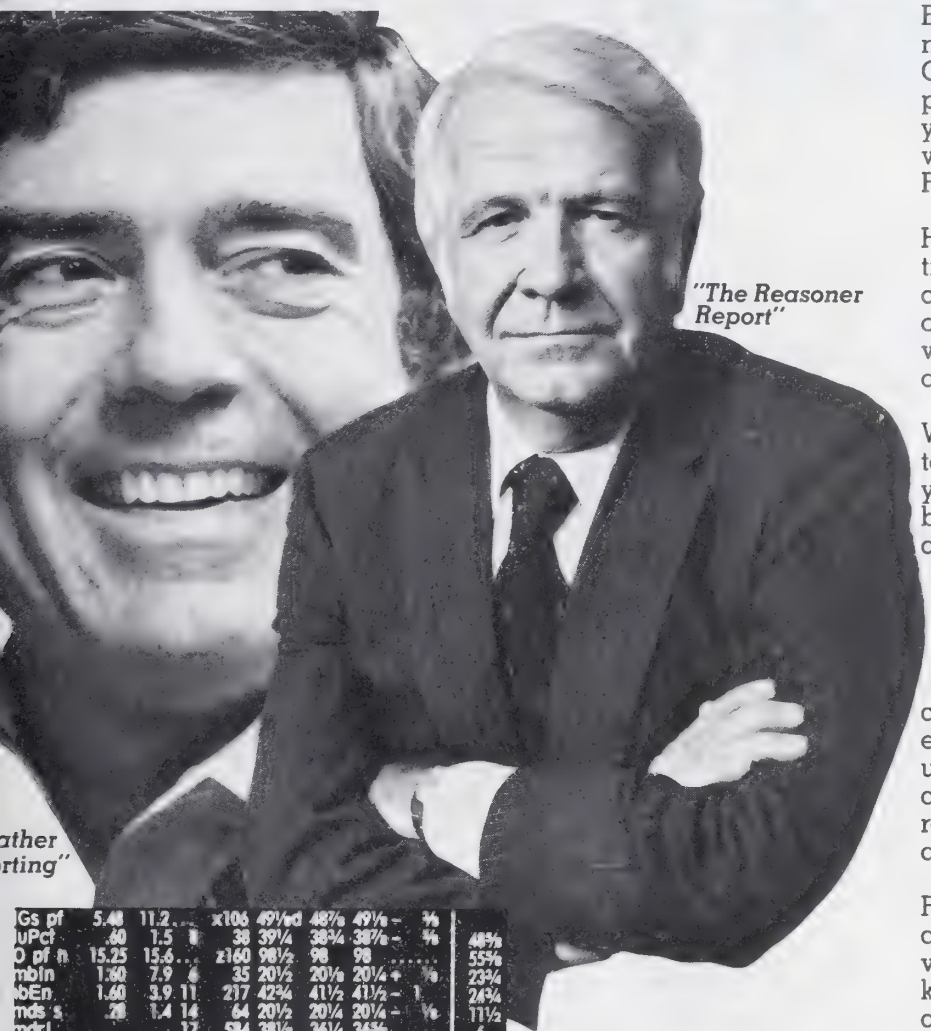
WHO GETS THE MOST PAY

Rank	Company	Chief executive (age)	Compensation ($000) Salary & bonus[1]	Benefits[1]	Contin-gent[1]	Stock gains[1]	Total	Years served With co.	As CEO	Place of birth	Bu back
67	United States Gypsum	Graham J Morgan (63)	497	—	13	504	**1,014**	41	16	Aurora, Ill	Ma
306	U S Home	Guy R Odom (50)	369	17	138	—	**524**	20	4	Groveton, Tex	Ope
327	U S Industries	[56]I John Billera (68)	496	13	—	—	**509**	28	16	New York, NY	E
211	United States Steel	David M Roderick (57)	609	1	17	—	**628**	22	2	Pittsburgh, Pa	E
495	United States Trust	[57]Tom Killefer (64)	226	134	—	—	**361**	5	5	Los Angeles, Cal	E
22	United Technologies	Harry J Gray (61)	915	71	342	734	**2,063**	9	8	Milledgeville, Ga	Adminis
464	United Telecom	Paul H Henson (55)	375	14	—	—	**388**	22	14	Bennet, Neb	Te
623	United Va Bankshares	Joseph A Jennings (60)	247	1	21	—	**270**	43	4	Richmond, Va	E
373	Upjohn	Ray T Parfet Jr (58)	398	55	—	—	**453**	33	19	Port Huron, Mich	I
273	USLIFE	Gordon E Crosby Jr (60)	435	7	113	—	**554**	22	15	Remsen, Iowa	Ma
801	Utah Power & Light	Harry Blundell (56)	125	—	6	—	**132**	32	2	Salt Lake City, Utah	I
340	Valero Energy	William E Greehey (45)	272	202	17	—	**491**	17	7	Fort Dodge, Iowa	I
469	Valley Natl Bk Ariz	Gilbert F Bradley (61)	299	15	69	—	**383**	44	5	Miami, Ariz	Admini
714	Va Electric & Power	T Justin Moore Jr (56)	203	—	6	—	**209**	21	3	Richmond, Va	
685	Virginia Natl Bshs	Clifford A Cutchins III (57)	205	—	15	—	**220**	33	1	Southampton Cnty, Va	E
287	Vulcan Materials	W Houston Blount (59)	422	29	91	—	**542**	26	2	Union Springs, Ala	Ope
597	Wachovia	John G Medlin Jr (47)	277	—	8	—	**285**	22	4	Benson, NC	E
667	Wal-Mart Stores	Sam M Walton (63)	225	—	12	—	**237**	35	35	Kingfisher, Okla	I
659	Waldbaum	Ira Waldbaum (52)	245	—	—	—	**245**	34	32	Brooklyn, NY	Admini
548	Walgreen	Charles R Walgreen III (45)	284	5	32	—	**321**	29	10	Chicago, Ill	Ope
299	Wang Laboratories	An Wang (61)	323	—	207	—	**530**	30	30	China	I
18	Warner Commun	Steven J Ross (53)	1,350	65	859	—	**2,274**	19	19	New York, NY	
209	Warner-Lambert	Ward S Hagan (61)	557	53	21	—	**631**	11	3	Sioux City, Iowa	Ma
522	Washington National	Stanley P Hutchison (57)	223	5	2	110	**340**	34	5	Joliet, Ill	
101	Waste Management	Dean L Buntrock (50)	460	3	—	404	**867**	24	13	Columbia, SD	
454	Wells Fargo	Richard P Cooley (57)	376	8	11	—	**395**	31	14	Dallas, Tex	
350	West Point-Pepperell	Joseph L Lanier Jr (49)	311	58	108	—	**477**	24	5	Lanett, Ala	Op
180	Western Co No Amer	H E Chiles (71)	658	16	—	—	**674**	42	42	Itasca, Tex	
771	Western Financial	Gary H Driggs (46)	155	2	2	—	**159**	19	5	Phoenix, Ariz	
647	Western Union	Robert M Flanagan (51)	255	—	—	—	**255**	7	2	Springfield, Mass	
178	Westinghouse Elec	Robert E Kirby (62)	673	3	—	—	**677**	35	6	Ames, Iowa	T
430	Westvaco	David L Luke III (57)	390	23	—	—	**413**	29	17	Tyrone, Pa	
708	Wetterau	Ted C Wetterau (53)	197	13	—	—	**210**	29	11	St Louis, Mo	M
240	Weyerhaeuser	George H Weyerhaeuser (54)	554	6	—	33	**593**	31	15	Seattle, Wash	Pr
48	Wheelabrator-Frye	Michael D Dingman (49)	814	67	267	—	**1,148**	11	10	New Haven, Conn	
545	Wheeling-Pitts Steel	Dennis J Carney (60)	265	32	27	—	**323**	7	3	Charleroi, Pa	Op
349	Whirlpool	John H Platts (63)	398	1	80	—	**479**	40	9	Detroit, Mich	
222	White Consolidated	Roy H Holdt (60)	496	31	87	—	**614**	39	4	Edgewood, Md	
655	Whitney Holding	Patrick A Delaney (49)	225	—	23	—	**248**	27	4	New Orleans, La	
89	Whittaker	Joseph F Alibrandi (52)	500	107	13	285	**904**	10	6	Boston, Mass	Admin
142	Wickes Companies	Emil L McNeely (62)	471	74	223	—	**768**	16	10	Pattonsburg, Mo	M
600	Willamette Inds	Gene D Knudson (64)	273	—	11	—	**283**	31	7	Washtucna, Wash	Pr
276	Williams Companies	Joseph H Williams (48)	413	44	96	—	**553**	22	2	Tulsa, Okla	Op
471	Winn-Dixie Stores	Bert L Thomas (63)	381	—	—	—	**381**	35	15	Malad, Ida	Admin
745	Wisconsin Elec Pwr	Charles S McNeer (55)	178	2	6	—	**187**	31	5	Gilbert, W Va	T
610	Witco Chemical	William Wishnick (56)	274	3	2	—	**279**	31	9	New York, NY	Admin
416	F W Woolworth	Edward F Gibbons (61)	424	—	—	—	**424**	7	4	Boston, Mass	
68	Xerox	C Peter McColough (58)	759	118	135	—	**1,013**	26	13	Halifax, Can	
508	Zale	Donald Zale (48)	320	27	—	—	**347**	26	10	Wichita Falls, Tex	M
515	Zapata	B John Mackin (63)	341	3	—	—	**343**	2	2	Dallas, Tex	
206	Zayre	Maurice Segall (52)	629	8	—	—	**637**	3	3	Joliette, Can	
441	Zenith Radio	Revone W Kluckman (52)	328	20	57	—	**406**	14	1	Mound City, SD	
541	Zions Utah Bancorp	Roy W Simmons (65)	162	—	25	140	**327**	27	15	Portland, Ore	Admin

[1]For FORBES definitions and methodology see page 114

[56]Succeeded by Gordon A. Walker, 1/1/81.
[57]Succeeded by Daniel P. Davison, 1/1/81.

WHY THE LISTENING IS SO GREAT IN THE LATE AFTERNOON



"The Reasoner Report"

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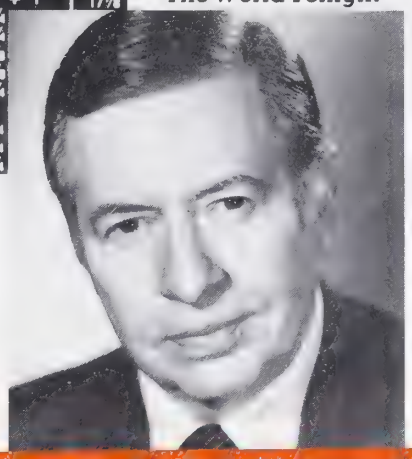
uPct	.60	1.5	8	38	39¼	38¾	38⅞	–	⅛	48⅝
O pf n	15.25	15.6	...	z160	98½	98	98		.....	55⅝
mbIn	1.60	7.9	6	35	20½	20⅛	20¼	+	⅛	23¾
bEn	1.60	3.9	11	217	42¾	41½	41½	–	1	24¾
nds s	.28	1.4	14	64	20½	20¼	20¼	–	⅛	11½
mdrl		....	17	584	38⅛	36¼	36⅝		.....	6
wE	2.60	14.4	6	921	18¼	18	18	–	⅛	22½
E pf	1.42	9.2	...	1	15⅝	15⅝	15⅝	+	⅝	20¼
E pf	1.90	15.2	...	11	12⅝	12½	12½	+	⅛	32½
E pf	2.00	15.2	...	33	13⅝	13	13⅛	+	¼	13¾
E pf	2.37	13.3	...	4	18	17⅞	17⅞	+	⅛	85⅝
E pf	2.87	14.1	...	9	20⅜	20⅜	20⅜		.....	40
E pf	8.40	15.6	...	z300	54	54	54	+	1	17⅞
ftnEn	1.88	13.2	6	24	14⅝	14¼	14¼			
nsat	2.30	4.6	8	417	49⅞	48⅛	49¾			
Psyc	.40	1.4	21	42	29⅜	28⅝	28⅞			
nPS	2.08	12.3	5	7	16⅞	16⅞	16⅞			
mogr	.071	....	32	271	22⅝	21¾	21¾			
npSc		....	12	679	22⅝	22	22			
vsn		....	45	352	85⅛	80¼	80¼			
hAgr	.75	3.7	10	467	21	20¼	20¼			
heMl	2.20	6.3	4	x159	35⅛	34¾	34¾			

Douglas Edwards on "The World Tonight"



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The Competitive Edge

Accountants are beginning to worry that their smaller clients are being unfairly penalized by disclosure overkill.

The world according to GAAP

By Jay Gissen

NO ONE SAID IT WAS EASY for General Motors or IBM to remain always in compliance with the voluminous Generally Accepted Accounting Principles. But what the accounting profession is beginning to realize is that it's even tougher for small businessmen to live with GAAP. "When the FASB develops standards, they're probably developed with larger companies in mind," says Harvey Moskowitz, Seidman & Seidman's national director of accounting. "Sometimes the standards they develop are too costly and complicated for smaller businesses."

Stanley Scott, chairman of the American Institute of Certified Public Accountant's new Special Committee to Study Accounting Standards Overload, agrees. "There's a strong feeling that a lot of the standards emanating from the standards setters do not really have an applicability to small or privately held companies," he says.

Small businessmen also agree:

• Privately held Dierckx Equipment Corp. (annual sales: $25 million) does a lot of leasing as part of its equipment business. GAAP requires that those leases be capitalized, and that has placed Dierckx in the middle of a catch-22 with the banks. If it doesn't capitalize its leases, it's not in compliance with GAAP, and the bank may not like that. If it does capitalize leases, its leverage ratio looks a lot worse, and the banks may not like that. Not only does this GAAP requirement endanger Dierckx' credit rating, but the cost of complying with that *one* requirement is $7,500 annually. Says Financial Vice President Ray Romano: "It's just a paper entry. It's immaterial. But it adds a lot of bookkeeping time. Our auditors must

spend at least three days just going through the lease transactions, and without that requirement that wouldn't be necessary."

• New Brunswick Scientific Co., Inc. (annual sales: $16 million) has two accountants and a small bookkeeping staff. Keeping up with the slew of GAAP requirements has become a significant time problem. Controller Steve Rothstein finds GAAP burdensome and costly. "It's impossible to keep up with it all," he says.

• AW Computer Systems, Inc. (annual sales: $3 million) has a staff of 22 people. Before it went public last year, an accountant used to come in once or twice a year and a bookkeeper handled the ledger. Now it spends $70,000 annually for public reporting. The annual report has 12 footnotes covering 7 full pages. Says Controller Brad Smith: "It's a terrible burden. There's an awful lot of disclosure and I'm not really too sure that it's all that informative to the readers of the statements. What's going on here?"

Now some accounting firms are exploring the possibility of creating a sort of "little GAAP" for small companies. That might disturb statement users like bankers and investors, but there need be no significant information loss if little GAAP were intelligently designed, the firms argue.

Numbers Game

This may be easier said than done, however. Take the obvious task of defining "small," for instance. The logical source for such a definition, the FASB, doesn't have one. Inflation might make any dollar cutoff meaningless in a short time, it feels. A split between publicly held and privately owned companies wouldn't do the trick either. After all, some private companies are huge and some public ones are tiny.

Then there is the thorny question of which disclosure requirements to drop. Although most accounting firms agree that some disclosure requirements are too severe for small businesses, they differ widely as to which ones are painful enough to alter. When it comes to measurement principles—the rules for reporting that affect the bottom-line performance of a company—the disagreements are strong. Says Seidman's Moskowitz: "Only chaos could result from using different measurement principles for small and large companies, because users would be thoroughly confused. It would certainly raise credibility questions about the financial statements."

Proponents of alternate measurement standards for small companies claim that such confusion could be avoided if the alternative principles were sanctioned by the standards setters and limited to a well-defined group. "There are some of us in the profession that feel we should at least take a good look at whether we can develop alternative measurement principles," says Charles Chazen, a partner at Laventhol & Horwath. "Not all clients are quite the size of GM."

Certainly for clients smaller than GM, many principles seem nearly useless. Take, for example, FASB Statement 13, Accounting for Leases, issued in 1976. Capitalizing a lease changes the net income of a company, but to small companies with few leased items that don't normally need the accounting manpower to do the test procedure, FASB 13 is an unnecessary complication. Says New Brunswick Scientific Controller Rothstein: "Things like lease capitalization are impossible for a small firm to administer with a small staff. It's putting a tremendous strain on us just to keep current with the regulations."

"On one hand, if I leave his figure in and take exception to GAAP in a footnote, he gets all upset and says 'What do you mean I'm not reporting correctly?' " says Terry Most, a partner at Most & Horowitz, a small

dison Avenue firm whose largest nt has annual sales of $15 million. t if I make all the changes, he n't even recognize his own num-s. I'd have to spend a few hours laining and a few hours to do all new calculations. We might have doubled his accounting fee."

hat doesn't sit well with the ll-business owner who only uses statements as part of the formality et a loan from the bank. The bank sn't necessarily care to see GAAP ements—in many cases, it would satisfied with a representative al-ative—but pressure within the in-try and GAAP's "golden rule" tation can make the bank balk en it's not applied.

ome other FASB statements that n come into question include pensated absences and capitaliza-of interest costs which many titioners feel are accounted for erally anyway. Says Most: "An ex-se is an expense and I accrue it. if you go to a small businessman tell him that his bookkeeper has rack compensated absences, he , 'the hell with you.' "

hat's more, there have been many plaints that auditing procedures as hole have also been designed for er companies that have a fairly ex-ive segregation of accounting du-. The AICPA is aware of the prob-and is looking at ways to fix it. s Dan Guy, director of auditing re-ch: "You can't apply a large-client it approach in a small-business set-. It doesn't work." Still, that large-nt approach *is* applied in many s—whether it works well or not.

lthough these difficulties have an issue for several years, until the AICPA and FASB have been ressing them at a glacial pace. Fi-y, last year, the AICPA offered two gories of membership, one for pub-ompany practitioners and one for ate ones. A step. The FASB also itted that it just isn't necessary for ate companies to report earnings share. Another step. And supple-tal current value accounting is required for the top 1,500 or so lic companies. Progress.

We're trying to understand the lems and their underlying causes er," says Glen Hildebrand, the B's assistant director of research technical activities, "but we've hed no conclusions." Clearly, the PA and FASB are going to have to h some conclusions soon. Says La-thol & Horwath partner Edward rady: "It would be unrealistic for of those bodies to ignore it. It's g to happen because it's got to." ■

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John Lennon did more than write hit songs. He went into one of the newest and potentially most profitable tax shelters.

Milking the taxman

By Maurice Barnfather and Jon Schriber

YOKO ONO WAS NO SLOUCH at finding tax shelters for John Lennon's $150 million fortune. Indeed, she was one of the first to recognize the tax benefits from owning cows. That's right, cows. She has about 250 prime Holstein cows chewing the cud on upper New York State farms. Value: around $7.5 million.

Of course, Yoko Ono wouldn't see it quite like that. No tax shelter here. More an investment with tax benefits, according to close adviser George Teichner, a Madison Avenue lawyer. "I know," he says. "I'm sitting here with her income tax returns in front of me."

Whatever the label, one thing is clear: In the early Seventies Teichner and friend George Morgan, a dairy farmer, formed Dream Street Holsteins Inc., in Walton, N.Y., as an investment vehicle in dairy cows. Naturally, Teichner's friend Yoko Ono became involved with their schemes. She would have been foolish not to, once she saw the tax advantages in the cow business. First, there is a 10% federal investment tax credit when you buy the cow. Then, New York State gives you another 4%. Finally, you can treat the cows like manufacturing equipment when it comes time to figure your depreciation. Keep the cow seven years and you maximize those benefits. While waiting, all operating expenses like feeding and running the barn are deductible as legitimate business expenses.

All the while the taxman is helping you pay, the cows are working for you too, by breeding their bovine hearts out. And the scientists can give them a rather spectacular helping hand in that area through the process of embryo transplants (even the frozen semen is deductible). In the past few years it has become feasible for one exceptional donor cow to produce an average of 3 to 5 and up to 20 offspring with each superovulation. It's a simple process in which the cow's ovaries are stimulated by injecting hormones into her bloodstream, causing the production of multiple eggs. These ova are taken from the donor, artificially fertilized, and each fetus is transferred to individual brood cows.

Says Frank Wood, who in 1979 bought Dream Street after Teichner and Morgan had a personality clash and sold the firm: "We have animals that expect 50 calves a year." In fact, Dream Street has its own staff veterinarian and embryologist making up to 45 transplants a week, of which 60% to 70% result in pregnancies. "All you need to do is keep grinding out the embryos," says George Morgan, hands rotating like a flour mill.

Wood continues: "I sell embryos for more than $10,000. That includes the recipient [or brood cow]." There's a good reason for such high-priced embryos. Last fall a cow fetched a record $300,000. That topped the previous record of $250,000 for a cow sold by none other than John Lennon. Admittedly these animals are the elite of the Holstein world. Out of the 10 million bred in the U.S., only about 1.5 million are registered. Over 21,000 were sold at auction last year, and their average price was $2,700 a head. Some 130 animals went for $20,000 each or higher.

Clearly there's a huge potential capital gain from buying a pedigree embryo for, say, $10,000 and selling it for $300,000. What's more, the cows at Dream Street produce rivers of milk. Last year, one of Frank Wood's cows, with over 40,000 pounds of milk, was the highest milk and butter-fat producer in the U.S. That's about twice what's considered a good average. Says he: "Her daughter has a shot at 45,000 pounds of milk this year."

You don't even have to be superrich like Lennon to walk on Dream Street. In addition to buying the cows, all you do is pay Dream Street a management fee. Sometimes the farm receives some form of compensation for any offspring, but more frequently it just keeps the milk. On balance, it's a relatively new and potentially lucrative way of converting income into capital gain while taking tax deductions along the way. "Basically, you're working with a money tree, and it's just a question of keeping the cow alive," says Morgan. ■

Yoko Ono contemplating her portfolio

Embryo transplants turn cud-chewing farm animals into cash cows.

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Swift Independent, an old company reborn, could very well be a case of . . .

Synergy in reverse

Swift's Copeland and some 4-footed friends
For the first time in years, competitive labor costs.

By James Cook

EVEN THE UNDERWRITERS WERE caught short a month or so back when the initial 2.75 million-share stock offering of Swift Independent Corp.—Esmark's former fresh meat division—wound up oversubscribed. Why would anyone want to put his chips on the long-ailing meatpacking business? Esmark had earlier tried and failed to sell the company to investors in Europe and to Swift's principal labor union, and everyone figured that, if anything, Swift would be a retail stock—for private and not necessarily very sophisticated investors. Instead, 50% of the offering went to institutional investors.

"I guess they must have understood what we were doing," says John A. Copeland, the tall, stocky 57-year-old former Swiftman who now heads up the company. For most of the 33 years that Copeland has been with the company, Swift has steadily lost ground, but Copeland has determined it will lose ground no more. "We didn't just trim down the company so it could survive," he says. "We got it in a position where we could get it growing again.

"Esmark agreed to let us select the operating units and even businesses we wanted to take into the new corporation," Copeland explains. "Any units that were not profitable, or were marginal or likely to cause any future problems—they said, 'Leave that with us. We'll be responsible for any loss associated with it.' It was a once-in-a-lifetime opportunity—for a large corporation that's been in business 126 years—to say, I don't want this particular sales unit or that plant.

Shorn of its problems, Swift look surprisingly healthy. In its latest fisc year (ended last October) it earne $3.99 a share—$19.9 million, or ju under 1%, on its $2.1 billion in sale That compares reasonably well wit the 1.1% that the industry's new g ant, Iowa Beef, earned on $4.6 billic in the last year.

Certainly Esmark gave Swift eve chance to prove what it could do c its own. For one thing, it made Swi responsible only for the people wh stayed on with the new company; E mark also fully funded the company pension program for the first tim "So our pension expense," Copelar says, "immediately dropped $4.9 mi lion a year." Then, too, Esmark a sumed responsibility for junking th properties Copeland decided weren viable and assumed all the costs i volved in closing a number of Swift other plants, including several it i tended to reopen. Best of all, Esma in effect sold Swift $166.5 million fresh meat assets for $100 millio thereby giving Swift a semiperm nent tax advantage. Swift wrote dow its physical assets by the amount the difference and in so doing cut i depreciation charges by $9 million year. The writedown was for boo purposes, not tax purposes, howeve so that Swift will, in effect, have 28.5% tax rate on the earnings it a quired, *vs.* the normal 46%. "Of cours that will rise as we make new inves ment," Copeland says. "We'll probab average a 32% tax rate for the ne three years." Swift plans to spend $ million in the next two years.

Most important of all, the deal w enable Swift at long last to bring i sky-high labor costs back in line wi those of its competitors. Take the b Moultrie, Ga. pork plant. Esma closed the plant last April because, claimed, it could not compete wi the labor costs of the other maj packer in the area, Sunnyland Pac ing. Sunnyland had a contract wi the local unit of the United Food Commercial Workers. Swift, as a r tional packer, was covered by t same union's Master Agreement, a that meant it paid its workers $16 hour, including fringes, twice as mu as its competitors were paying. Str ping Swift for action, Esmark clos down the plant, severing its stat under the Master Agreement, and reconstituted Swift reopened it a fe weeks later. The UFCW is certain sue over a technicality, but there is way, Copeland says, it can win. they are successful, they lose th jobs. We will have a competitive co

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tract, and it will be a local contract. There's no way we could continue to operate under these Master Agreement contracts."

Swift has adopted a similar strategy for the beef plants that it closed in Des Moines, Iowa; Guymon, Okla.; and Clovis, N.M. Des Moines has already reopened, so far without union representation, and so has Guymon, with a local contract. Clovis will reopen with a local contract when the cattle cycle improves. The result, Copeland says, is that Swift's labor costs—hourly costs, fringe benefits, the works—are going to be competitive for the first time in over a decade. "What we are saying now is that we will reopen these plants only when we are competitive."

If nothing else, Esmark gave Copeland plenty of incentive to get Swift's business growing again. As part of the deal, Copeland and a group of four other top executives were given 155,000 shares of nonvoting common, convertible after 1983 into voting common on a share-for-share basis. Copeland's 50,000-share stake was worth $750,000 at the offering price of 15, but, of course, that's theoretical. "I've got to earn that," Copeland says briskly. But the potential clearly is considerable. What if Swift's multiple began to move up from less than 4 currently to the 10 or so at which Iowa Beef is selling?

And why not? With Esmark's diversified operations cut off, Swift will be free to devote all its capital and managerial resources to its basic meat business—something Esmark was disinclined to do once it branched out into oil, chemicals, synthetic bacon, and brassieres. Like most of the other old-line meatpackers—Wilson, Cudahy, Morrell, Armour—Swift suffered from being the poor relation of a big conglomerate.

"The conglomerates didn't buy these packers for their fresh meat operations," Copeland explains. "They said, 'All we've got to do is put some marketing people in the area and turn that 1-cent [commodity] profit margin into 3 cents [for consumer branded products].' Well, it wasn't that easy, and they found that they bought facilities that were rapidly becoming obsolete. So they just stopped investing, especially in beef.

"The people here now," Copeland goes on, "are absolutely committed to the commodity fresh meat business. Those people at Esmark wanted to move into consumer branded products. That created problems for us—with our customers, the morale of the employees, attracting the right kind of people and getting the funds to keep us competitive."

Swift got off to a somewhat slow start in the fiscal year that started last October. First-quarter earnings were down a bit and Copeland will be lucky to match last year's high earnings as long as falling production and risin hog prices continue to put the squeez on processor margins. As a result, th stock is off a bit from its offerin price. But for stockholders with pa tience, Swift Independent could be a intriguing situation. ■

Starry-eyed investors are throwing caution to the winds and pouring money into orange rinds, egg shells and milk cartons.

Glittering, glamorous garbage

By Jeff Blyskal

THE PUBLIC NOTION of the garbage business is that it is a safe haven for the indolent when run by municipalities or else a playground for the Mafia when private carters are involved.

But investors have recently begun to view the industry in a different light. Waste disposal is one of today's hot new glamour industries. It has become a $10 billion business, double what it was in 1970 and expanding at a 15%-to-20% annual rate. An estimated 65% of all U.S. garbage is disposed of by private industry, not least because it gets the job done for 30% less than municipalities, according to a 1977 Columbia business school study. The industry's publicly held leaders—$560 million (sales) Waste Management, Browning-Ferris Industries with sales of $553 million, and SCA Services with $230 million sales—have generally grown even faster than that 15%, as much as 42% a year. And all this has sent the big three's stock through the roof.

What makes this especially striking is that corruption and organized crime have historically cast a dark shadow on the industry. A prime example is SCA, some of whose units have been closely connected to the Mafia in New York and New Jersey, according to testimony given last year before the New York State Senate Select Committee on Crime. The company denies the accusations. In 197 former SCA President Christoph Recklitis was sued by SCA for $2 million in overpayments he alleged made for landfill sites in Massach setts and New York in which he h an undisclosed interest. And SC Chairman Thomas Viola has "flat denied" allegations made before congressional hearing that "I or SC has a relationship with organiz crime."

What then does Wall Street find captivating about the garbage bu ness? Dean Buntrock, chairman Waste Management, gives this exp nation: It's a repeat of the early Seve ties when environmentalists' ferv spurred stiffer antipollution legis tion. The big three benefited mighti from that, posting giant earnings a revenue gains. Then they took th overinflated stock and went on buying spree, each picking up a hu dred or so smaller trash haulers little more than a year.

So Dean Buntrock didn't have to hit over the head in 1976 when saw Congress pass tougher standa for the disposal of hazardous che cals. "It was very logical that the sa thing that happened in solid wa would happen in hazardous chemi waste," says the 50-year-old B trock, "and it did."

Last November, the Resource C servation and Recovery Act (RC went into full effect and the big th enjoyed another wave of speculati

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this one bigger than the last. Since 1980 SCA's stock has climbed from just 6½ to 20¼; BFI's from 12¼ to 36¼; and Waste Management's from 36⅛ to a dizzying 123¼. That makes for a total rise in market capitalization of some $1.9 billion. Current price/earnings ratios range from 13 to 24.

But while analysts are falling over themselves in the rush to recommend these stocks, a closer look reveals that the potential of chemical waste disposal may not be all it's said to be.

Waste Management is generally described as having "the most advanced technology" in chemical disposal, about 17% of its sales volume. *Fortune* magazine last year marveled at the company's "sophistication" in the area. But just how sophisticated is the industry leader? Incineration, resulting in the total destruction of toxic waste, is the best presently available disposal technology. But such facilities cost $15 million to $20 million to build, and aside from a ship that burns certain toxic materials at sea, Waste Management has no incineration facilities for toxic wastes.

"That only comes to pass," says Donald Price, vice president of Waste Management's chemical subsidiary, "when the generator is willing to pay for that type of technology."

Instead, Waste Management's disposal system centers on secure landfill sites, acres-big pits dug into thick, impermeable clay soils and eventually capped. While based on the concept used at Love Canal, the Hooker Chemicals toxic waste disposal site that leaked after being disturbed, the "secure" sites are considerably more safeguarded.

Corrosives and acids, the largest of Waste Management's chemical streams, are neutralized. What's left must go into a secure landfill. Toxic wastes are physically concentrated and go into the secure landfill. Ignitable chemicals are treated and changed into supplemental fuel for incineration, with ash from that going into the secure landfill.

And a good amount of untreated wastes goes directly into—yes—the secure landfill.

Waste Management has sunk $60 million into landfill sites, equipment and labs over the past four years. BFI, likewise, has also invested heavily in secure landfill sites. Trouble is, the secure landfill is fast on the road to obsolescence. Notes one analyst, "These people are selling themselves as the definitive answer to the chemical waste problem. But they stand on the technological bottom rung."

Although Waste Management just opened a new research center outside of Chicago, it, along with BFI and SCA, will be racing against the chemical industry itself to find new disposal methods. Talk to David Schoen, engineering manager of Ohio's Coulton Chemical Corp., about biological degradation: "Industry research organizations are cultivating bacteria that resist these toxic compounds and can actually consume them," he explains. And last year Goodyear Tire & Rubber came up with a process for detoxifying oil contaminated with deadly polychlorinated biphenyls or PCBs.

Waste Management Chairman Dean Buntrock
"You wouldn't invest $60 million without the regulations."

"Our biggest competitors will be the largest generators of waste," says Price. "If we can't move quickly enough to address the generators' needs, they'll do it themselves." One chemical industry solution guaranteed to rob market share from the big three is the reduction of wastes, because, says Dr. Daniel Maisel of the American Institute of Chemical Engineers, "It's now going to be more costly to dispose of them." Maisel cites a new process in the production of polypropylene plastics that no longer throws off the gooey toxic waste the old method once did.

Recycling will also reduce output. Coulton Chemical's Schoen again: "We get spent sulfuric acid from chemical companies, burn it, reprocess it and sell it back as good acid. There's no toxic waste."

Still, SCA Vice President Steven Feinstein believes chemical waste disposal could become a $1.5 billion market by 1985, up from $300 million today. So Boston-based SCA is anteing up $30 million to build six incineration and treatment facilities in the East over the next two years. Will the market be as big as expected?

"I see a growing market for the service industry," says Bob Taylor of the Environmental Protection Agency, "but the bulk of the work is going to remain with the industry that generates and disposes of its own wastes."

Buntrock, like Feinstein, expects the market to be there too, but he's banking on RCRA. "You wouldn't invest $60 million without the regulations," he points out. However, the Reagan Administration now has said it intends to review RCRA, and Washington sources say the White House is thinking about easing up the rules a bit for the chemical industry. That could reduce overall disposal costs and make it easier for new competitors to get landfill permits.

What's more, as the big three carve up the U.S. solid waste market, the 10,000 other trash hauling firms in the industry are getting uneasy. Says Donald R. Zykan Sr., whose $6 million (sales) St. Louis disposal service competes with the big three: "BFI is the vulture at the present time. They're hell-bent on running us out of business." And don't forget, the big three make up only 13% of the industry, so they're at a disadvantage of sorts, especially if a number of regional outfits decide to enter the fray.

However, the fight is clearly on in solid waste. True, there is still the international waste disposal and city cleaning market. Waste Management, the leader here, is currently under $64 million in contracts to cities like Riyadh, Saudi Arabia and Buenos Aires and is low bidder on another $55 million in foreign contracts. But in the international market Waste Management also is running up against "intense competition," more so now that BFI has jumped into the game.

Does all this add up to a multiple of 1[illegible] for SCA? of 16 for BFI? of 24 for Waste Management? Only for those who think silk purses come from hogs. ■

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Faces Behind The Figures

Edited by Jefferson Grigsby

"The right to fail"

Ambassador William E. Brock is nothing if not candid. While it's increasingly clear that Detroit got little from Japan's voluntary "limits" on auto exports to the U.S. (FORBES, *May 25*), Reagan's chief trade negotiator also concedes without hesitation that there was at least one other winner—other than the Japanese, of course: the Reagan Administration itself.

"We frankly were concerned only about the advent of a protectionist bill in Congress that would have diverted us from the more fundamental purpose of passing our economic program," Brock told FORBES in Los Angeles late last month.

Moreover, he says, the Japanese action—to limit exports to 1.68 million cars this year and next plus a guarantee of no more than 16.5% of any U.S. market growth in 1982—is all the help U.S. industry can expect from Reagan in dealing with Japanese imports. "We don't believe Japanese imports have created the problem," says Brock, "and we don't believe the elimination of imports would solve the problem."

What would? "It is now up to our industry to retool, increase its productivity, increase the quality of its product and produce it in a competitive fashion," says Brock.

The "limits" decided on by the Japanese are well above their average sales over the last ten years and only 7.7% less than the 1.82 million cars they sold in the U.S. last year. So, says Brock, they should have no trouble maintaining at least 18% to 19% of the U.S. market, and have plenty of opportunity for future growth. As for the U.S. companies, if they can't stand the heat, get out of the kitchen, says Bill Brock: "This Administration believes companies have to have the right to fail."—**Kathleen K. Wiegner**

General William G. Moore Jr., president of Emery Air Freight
Attacking or retreating?

Chief U.S. Trade Negotiator William Brock
If you can't stand the heat, get out of the kitchen.

What's the strategy?

Barring a couple of years as a cons tant, General William G. Moore J last big job was directing the evacu tion of Americans from revolutiona Iran in 1978. Now the former head the U.S. Military Airlift Command directing $553 million (sales) Eme Air Freight's strategic response to t blitzing Federal Express has given t air express market. But whether th strategy is an attack or a withdraw the general isn't saying.

As Emery's new president, the year-old retired general's chief de sion may well be whether to contin to challenge Federal's dominance the overnight air express business go back to concentrating on regu air cargo. In 1978 Emery came out that market niche to face direct co petition with Federal—but so far hasn't gotten very far off the groun

The signs have been conflicti Emery recently mysteriously nounced that it had done a mar segmentation study and "redefine its marketing strategy, and it w spend $40 million on a new hub t minal for air cargo operations at D ton, Ohio. It is also beefing up owned fleet (the key to Federal's s cess), buying 12 Boeing 727s and o er aircraft for $63 million. Emery fl about half of its own cargo, but t will rise to maybe 65% or more as t new planes are phased in—and it is air express that owned fleets (whi don't have to depend on the vagar of airline schedules) are most cruci

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orderly retreat—back to Emery's traditional heavy-cargo market. Says the general: "Air cargo is our bread-and-butter business; express is only part of that."—**Jane Carmichael**

Ready for prime time?

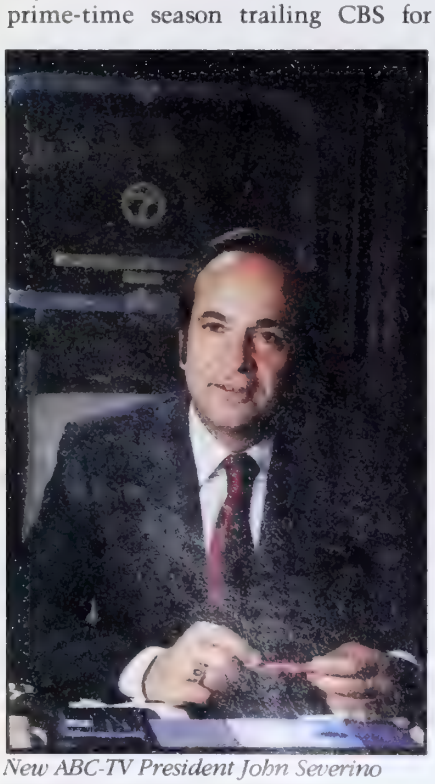
It has long been known that American Broadcasting Cos. was getting ready to move up ABC-TV President Frederick S. Pierce to prepare for the retirement of Chairman Leonard Goldenson, 75, and the elevation of President Elton Rule to chairman. But when Pierce's successor was announced, it was a surprise even to many inside the network. The choice: John Severino, 44, vice president and general manager of the ABC-owned station in Los Angeles, KABC-TV.

Severino, who will officially take over July 12, has been knocking around ABC for 15 years—11 of them in the hinterlands as a station manager at WLS-TV in Chicago and then in Los Angeles.

It was his success at KABC-TV that brought him to the attention of ABC brass. When Severino took over in 1974, KABC-TV was a dismal third in the highly competitive seven-station Los Angeles TV market. By 1979 it was number one, and has stayed there ever since. Around the network, of course, number one is a phrase with a wistful ring these days—ABC-TV finished the 1980-81 prime-time season trailing CBS for the second straight year. "My background is in managing TV stations," says Severino. "But the management skills for this job are similar." These skills will be quickly put to the test. Though Severino takes over Pierce's title, he will not get all his responsibilities: Pierce will retain control of ABC News and Sports as well as the company's projects in programming for video cassettes and cable.

That leaves Severino with the prime-time schedule, whose decline was responsible for ABC's first-quarter earnings skid of 48% (to $12.8 million), and a string of still successful but aging series like *Love Boat*, *Three's Company* and *Fantasy Island*.

Severino isn't saying much now about what he intends to do about all this—or about ABC's runaway costs. After all, some observers see cost control as a top priority, yet at KABC-TV, Severino spent a bundle in his run for the top.—**Kathleen K. Wiegner**



New ABC-TV President John Severino
Number one has a wistful ring.

Lawrence H. Hyde of AM General
"Our name, our heritage, our first and true love."

Hail and farewell

The military jeep is "our name, our heritage, our first and true love," says AM General President Lawrence H. Hyde, a gravelly voiced ex-Navy Supply Corps officer who doesn't often wax so poetic.

When it comes to the jeep, though, he has good reason: Hyde's American Motors Corp. subsidiary, which makes military vehicles only, has produced 90% of the 700,000 jeeps built since the tough little quarter-ton truck was developed in World War II. But because today's battlefields require a heavier missile-carrying vel cle, the jeep has come to the end the road. The Army has request bids on a 1¼-ton missile carrier, pl a quarter-ton off-road truck, to repla the GI's best friend.

The jeep was developed in 1940 the old Willys Corp., and acquired AMC from Kaiser in 1970. It has pr en a jewel. In addition to the stea business it provided AM General, other AMC subsidiary has built 1 m lion civilian-style jeeps like its C and Cherokee.

Even without the jeep, Hyde's co pany, which earned $10 million $374 million sales in 1980, is doi considerably better than parent AM which lost $197 million. So the Ar contract for the jeep's replacemer to be awarded in 1982, is crucial AMC. Until then AM General ha $1.2 billion, five-year contract building 5-ton Army trucks t should tide it over until the new g eration of jeeps starts coming off production lines in 1984. Assumi of course, that AM General gets contract. And that's a big assumpti 61 other companies are also in running.—**Lisa Gross**

One of a kind only

Back in 1946 Winton (Red) Blount his brother Houston used their inh tance and a loan from their mothe buy four D-7 Caterpillar tractors Union Springs, Ala. and became c tractors overnight. Houston Blount timately became CEO of Birmi ham's $754 million (sales) Vulcan

Faces
Behind The Figures

rials Co.; Red Blount, prospering th the Sunbelt, built missile silos the Air Force and launch complex- for NASA's Mercury, Gemini, ollo and space shuttle projects. ong the way, Blount also built the ew Orleans Superdome and took ne out to be Richard Nixon's Post- aster General from 1968 to 1971.

Now $651 million (sales) Blount Inc. s the biggest job in its history—the .7 billion academic center at the iversity of Riyadh in Saudi Arabia. om scratch, Blount and its French rtner, Bouygues, will put up 6.3 mil- n square feet of buildings. It's the gest single fixed-price construction ntract ever let.

The Riyadh contract took three ars to negotiate (during which the ah of Iran fell, blasting the com- ny's hopes for $250 million in Ira- n contracts), and a five-foot stack documents had to be translated o French, Korean and Arabic before final contract could be signed last ril. The negotiations involved sev- l of what Blount calls "eight-cup- tea sessions."

Red Blount is playing with big chips indeed. What if some Saudi Khomeini throws out the royal family? Says Blount: "We've got money in hand that will always exceed our costs. We already have a $343 million advance and also U.S. government OPIC insurance. We think it unlikely that something will happen, but if it did we could stop construction and still be ahead of the game."

Blount is also looking east of the Tigris. The company has an opening in China—a small contract to build a seed-processing plant. "China is going to be an enormous market and I'm glad we have a foothold there," he says. And then? Whatever it is, it will be different. "The first-of-a-kind, one-of-a-kind job is our trademark," says Red Blount.—**Linda Gasparello**

ton (Red) Blount of Blount Inc.
se eight-cup sessions paid off.

Winnebago founder John K. Hanson
In troubled times, retirement is a sometime thing.

Why do I have to do everything myself?

Once again John K. Hanson says he's ready to retire. The 67-year-old founder and largest stockholder of Winnebago Industries Inc., the Forest City, Iowa motor-home producer, took himself off the shelf two years ago after skyrocketing gasoline prices and interest rates decked his 23-year-old company, once one of the highest fliers of all. As sales plummeted and deficits mounted—fiscal 1980 revenues were down 58%, to $92 million, and a $4.2 million 1979 deficit turned into a $13.5 million deficit—Hanson fired his successor, CEO Harold Bragg, and even his own son, President John V. Hanson, 39.

That taken care of, the founder plunged the company into a crash program to develop a fuel-efficient camper that could replace its old 7-to-8-mpg behemoths. Last month he unveiled the result: Winnebago's new $18,800 Warrior and Spectrum models, which are supposed to get almost 15 mpg. An even more economical diesel version is coming, Hanson claims—as well as higher sales and earnings. "We'd be very disappointed if 1981 revenues were only $110 million, and net income was only $5 million," he says solemnly.

Hanson's confidence could be misplaced. The National Park Service predicts that overnight stays will be up 4% this year, but the percentage sleeping in a Winnebago-type vehicle or trailer has dropped almost 15% since 1978. Obviously there are a lot of people in tents these days, but they'll come around, Hanson predicts, when the new Winnebagos come out.

In fact, Hanson's so sure of Winnebago's recovery that he's passing the reins over to Ronald E. Haugen, 39, formerly executive vice president. Haugen, however, should probably watch his step; John Hanson seems to look upon retirement as a temporary condition.—**Larry Marion**

The sandwich-man cometh

Perhaps it will take a man of humble origins to breathe prosperity back into Britain's august Savoy Hotel Ltd., holding company for London's Savoy, Connaught, Berkeley and Claridge ho-

Faces
Behind The Figures

tels. Prestigious these names may be. Profitable they are not, however. Last year alone the Savoy group lost nearly $4 million on revenues of around $50 million.

Enter Sir Charles Forte, 72, an Italian immigrant's son who once peddled sandwiches in a World War I internment camp and has built his Trust Houses Forte Ltd. into a globe-girdling hotels-catering-leisure combine that last year earned $100 million on revenues approaching $1.6 billion. In one of London's bitterest takeover battles—Forte calls the Savoy Group's managers "incompetent nobodies"—he is offering $160 million cash to add the moneylosing Savoy group to his empire.

If he wins, Forte promises to eliminate the group's losses within two years and to show an annual profit of around $20 million within ten years—mainly by introducing the controls that characterize the rest of Trust Houses Forte—reducing Savoy group's swollen payroll and probably sacking its pampered management. That last move alone could save nearly $2 million annually, according to one well-connected source.

But it will take more than ambition. To protect themselves against predators, the Savoy's management in the 1950s split the group's equity, keeping most of the voting power (FORBES, *Mar. 3, 1980*). Thus Sir Charles is fighting what some think is a losing battle. Undaunted, he vows to hang on to the 33% of voting power he now has, whatever happens when the proxies are counted in June. "After another two years of losses," he says, "the other shareholders will *want* to sell to us."—**Coleen Toomey**

Sir Charles Forte of Trust Houses Forte Ltd.
In hot pursuit of four prestigious moneylosers.

Don't worry, Henry

Liberals and big-government diehards have been arguing for months that the Reagan tax cuts won't really amount to much and the President's "safety net" for the needy is full of holes. Now comes one of David Stockman's own to say pretty much the same thing.

In fact, says Lawrence Kudlow, 34, chief economist in Stockman's Office of Management & Budget, there's no *real* tax cut at all: "Essentially our tax program is an indexation program for the next few years." The proof: The tax collector's share of GNP won't shrink much at all, says Kudlow—to 19.3% from 19.7% under Carter. As for the net, it won't spread too wide: There is "what amounts to an agreement by Congress and the White House to lower the safety net."

Why is Kudlow saying this? Because he's worried about criticism from another powerful quarter: Salomon Brothers' Henry Kaufman, who jolted the Administration and the markets in April by excoriating Reagan's program as inflationary.

OMB Economist Lawrence Kudlow
Call it indexing.

Kaufman's problem, says Kudlow not just misreading the tax cuts also that he considers the Adminis tion's planned military buildup outs the context of the budget. Overall, s Kudlow, slashes in civilian spend will cancel out the military increa and the cuts. Thus the total pack isn't inflationary—even though, usual in Washington, estimates of fiscal 1981 deficit are rising from billion to $60 billion. Kudlow says t the real problem is missing the m by $20-to-$40 billion as past admi trations did. "If we miss the bug by a few billion," he says airily, nothing."—**Jerry Flint**

The true believer

G.H. (Bert) Walker III likes to p down the fact he's a first cousin Vice President George Bush, but similarities are there: "People c stantly say we're very alike in app ance, speech and mannerisms. when they do, I'm always flatte George is the star in this family."

Even so, Bert Walker, the 50-y old president and chief executiv Stifel Nicolaus, a St. Louis-based kerage firm, is posting an impres record of his own. In only two y he has turned Stifel Nicolaus, on stodgy and problem-plagued c pany, into one of the nation's fast growing regional brokerage fir Last year the company's return equity was a sky-high 35%, while enues jumped by nearly 60%.

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TIME

20th Century Man.

Modernism is our institutional culture, and Picasso is one of its Old Masters: 20th-century art is unimaginable without him.

TIME Magazine's commitment to the instructive role of journalism has seldom been so taxed as it was in dealing with Picasso. He is a total paradox: the Old Master of modern painting; the hero of a spectacularly successful exhibition at New York's Museum of Modern Art. His name is a household word among cognoscenti and laymen alike.

But, for all that, he remains for many a perfect enigma, the man who unaccountably gives faces more than the usual complement of noses.

Difficult as it is to explain Picasso in all his variety, TIME did it with characteristic panache: vigorously, accurately, economically, with a sharp eye for the memorable detail, and with the happy result of showing how Picasso's individualism, his immense self-confidence, his special aptitude for translating feeling into meaning, helped make him the preeminent 20th-century artist.

TIME's article was a rare performance, combining as it did the beguiling prose of art critic Robert Hughes and the intimate pictures by David Douglas Duncan, who for seventeen years was Picasso's personal photographer.

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Faces
Behind The Figures

That turnaround was generated by two-part strategy: The first has bee to concentrate retail brokerage bus ness at the upper end of the marke The second has been to beef up onc moribund corporate and municipal nance activities.

Going after the upscale mark makes a lot of sense for Walker, sin his educational pedigree is as bl chip as that of his more famous cou in: Groton, Yale and Harvard La School. He learned corporate finan when he opted to go into the fami business, G.H. Walker & Co., whic became G.H. Walker, Laird & Co. In in 1973 (his grandfather gave golf t Walker Cup).

Walker joined Stifel Nicolaus early 1976, 14 months after G.H. Walke Laird was taken over by White, Wel "I'm a true believer in the future regional firms. Our overhead is low a we give our clients the personal touch

His outlook on the market? bull market lasting four or five yea and a Dow Jones average reachi 2000."—**Thomas O'Donnell**

Bert Walker of St. Louis' Stifel Nicolaus
An optimistic prognosis.

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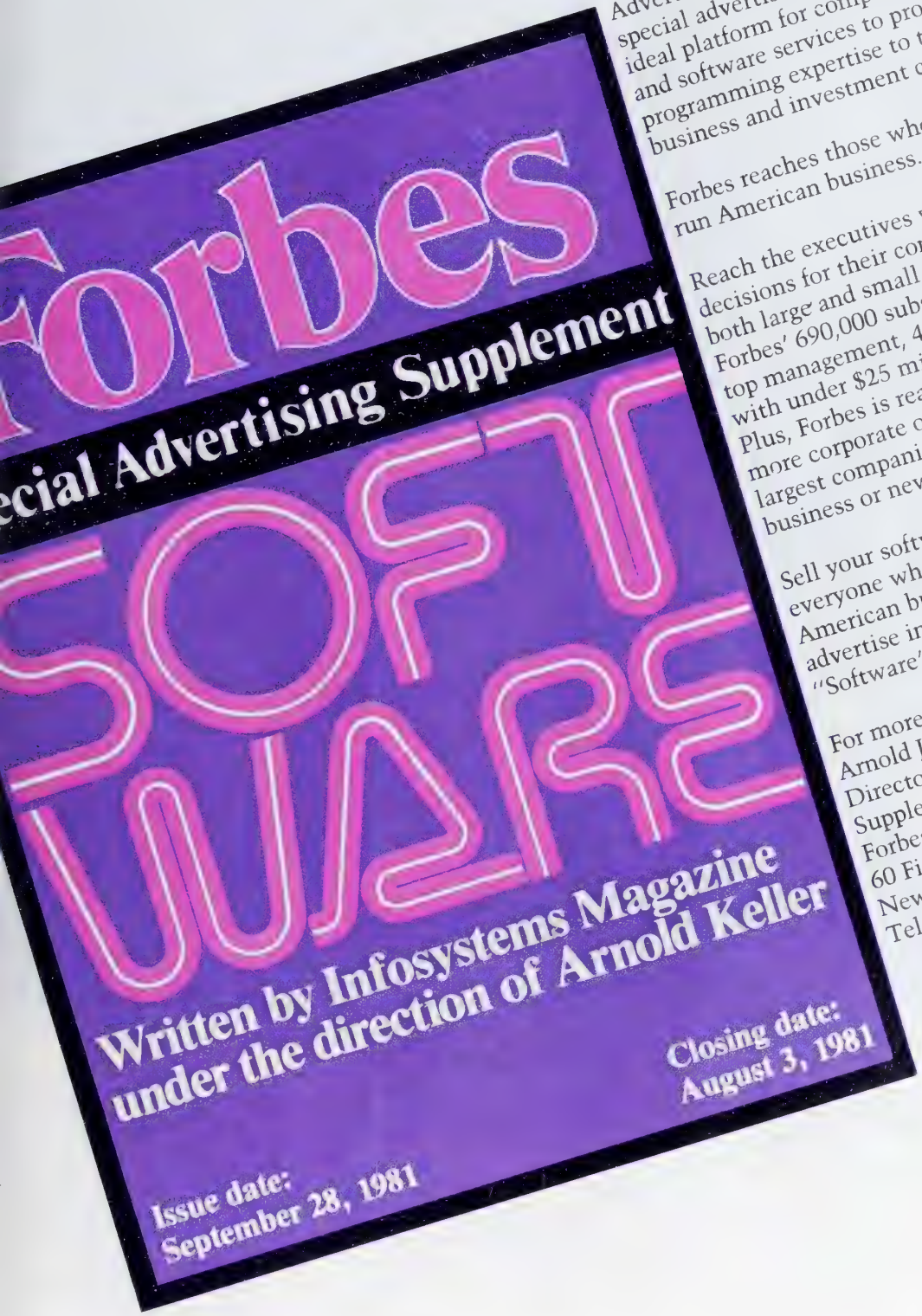

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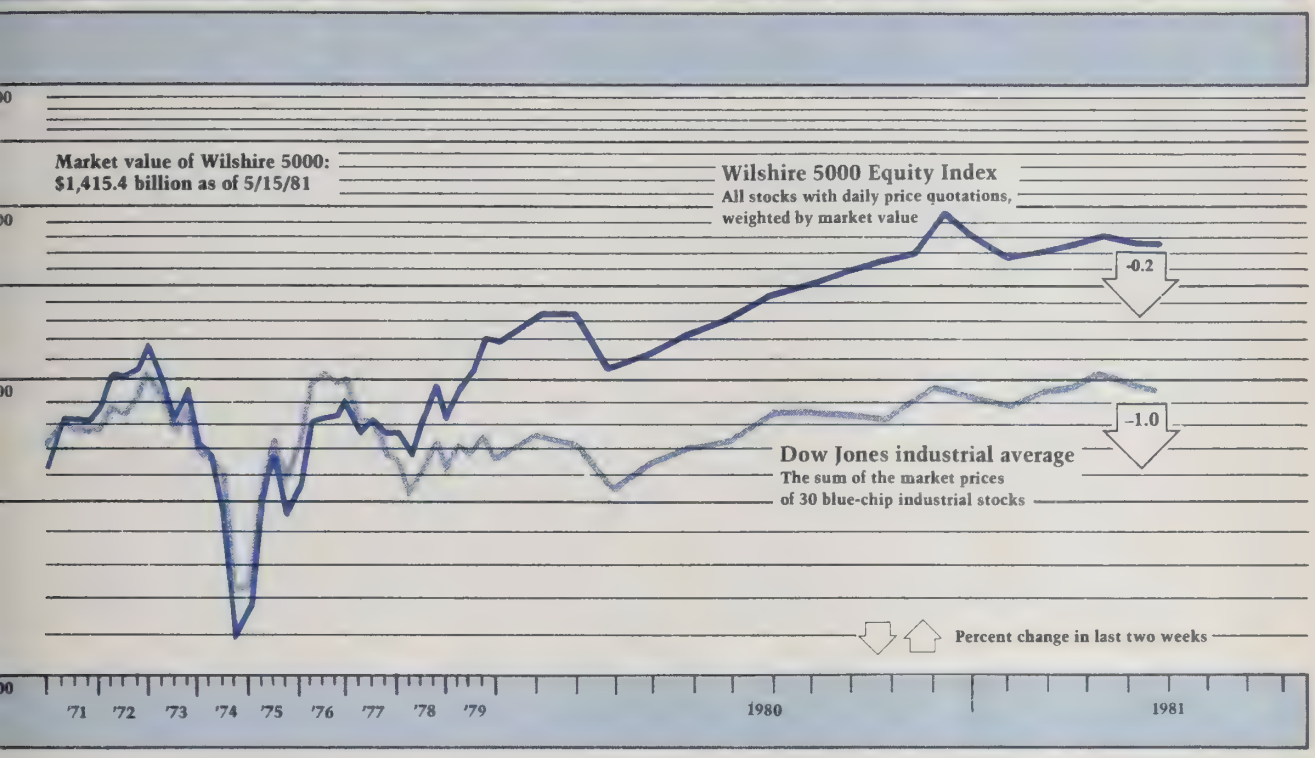
The Forbes/Wilshire 5000 Review



's a readjustment period—again. In the last few years Vall Street has been sticking fairly close to one standard cript: The Dow, for example, runs up by 50 to 100 points nd then quickly declines by roughly the same amount. here must be plenty of smart guys who have it down to a cience and know just when to bail out.

If this pattern holds true, both the Dow and the Wilshire vill most likely kill some time wallowing before making he next move upward. Overall, contradictory signals on nflation and the economy are doing little to boost investor onfidence.

During the last four weeks only the ASE Index, fueled by a slight uptick in energy stocks, managed to show some gains. However, the game is still NASDAQ stocks—where relatively small amounts of money can spark speculative fireworks. Even though the NASDAQ Composite slipped over the past month, it is still comfortably ahead of the NYSE Index. It is largely the NYSE component, in fact, that is holding back the 52-week performance of the broadly based Wilshire. It's a speculative market, not an investment market.

However, high-technology stocks really weren't a part of this high-P/E mini-rally. The charts on the next page make that clear.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
n last 4 weeks	–0.8	–2.0	–1.6	1.5	–0.1
n last 52 weeks	28.4	19.2	25.0	43.9	47.0

Stock performance based on five key investor yardsticks

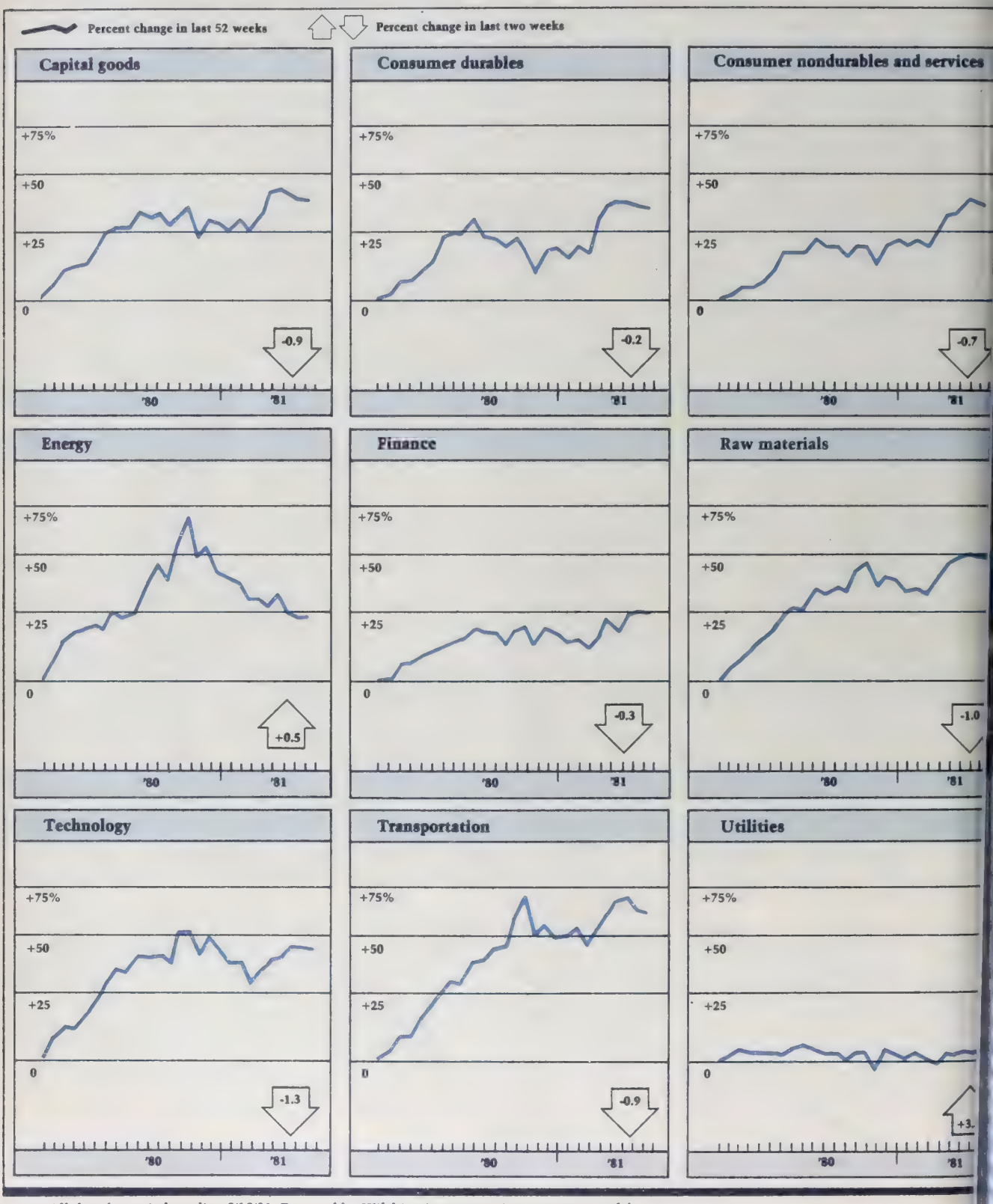
Percent change	Volatility *		P/E multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
n last 4 weeks	–0.1	–0.1	1.4	0.0	–0.9	0.5	0.9	–0.5	–1.5	1.4
n last 52 weeks	78.0	17.5	76.5	34.3	10.1	59.6	66.1	28.1	34.3	61.8

stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

e: All data for periods ending 5/15/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Light at the end of the extension cord? With few exceptions, the past two weeks have been a time to pull profits out of the market. Finance issues leveled off as brokerage stocks recovered from the recent case of acquisition fever. Technology companies, on the other hand, declined by 1.3%. Raw materials stocks fell almost as sharply, and capital goods producers continued their decline.

In the midst of all this gloom and doom, however, there were some surprising advances. The battered utilitie moved against the market and clocked a healthy 3.3% gain. Even though utilities are still some way from solv ing their fundamental problems, there are reasons to b optimistic. Companies in this industry could move clos er to historic book value and earnings multiples if the succeed in getting lower energy and interest costs and more sympathetic hearing from regulators.



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Comments by the Chairman, The Rt.Hon.Lord Barber

The operating profits of the Bank and its subsidiaries for the year ended December 31 1980 were $466.8 million and the Bank's share of associated companies' profits amounted to $88.9 million, giving profits before taxation of $555.7 million. The improvement over the 1979 result was 37 per cent. Earnings per share rose from $2.11 to $3.01, an increase of 42 per cent at a constant exchange rate.

Additionally, a non-recurring profit of $120.2 million arose from a review of deferred taxation liabilities and debt provisions. After providing for a dividend increase on the year of 25 per cent, an amount of $315 million was retained in shareholders' funds, raising these to $1,598 million. At the end of 1980 Group assets had increased by 18.5 per cent to $36,846 million of which $6,700 million were held by Union Bank, our California subsidiary.

The results achieved by the Group were good and nearly all territories showed an increase in profit. While the leading industrial countries almost without exception saw a slackening in activity, resulting in mixed fortunes for our business, many of the economies in the Far East, South East Asia and Africa grew strongly, and our operations in those countries were particularly satisfactory. Costs have continued to rise and debt experience has inevitably suffered under worsening business conditions. Nevertheless, the outcome of the Group's operations is an encouraging reflection of the scope and spread of the financial services which the Group offers around the world.

Union Bank was affected by the sharp fluctuations in prime rate during the year but nevertheless achieved satisfactory results, as did the branches of Standard Chartered elsewhere in the United States. Standard Chartered Canada Limited further consolidated its position, and now that the Bank Act has been amended it is intended to seek a full banking licence. The branch in Panama and the Group's offices in Latin America supported an intensified marketing effort.

In Hong Kong, where real economic growth sustained a remarkable five year average of more than 11 per cent, profits of The Chartered Bank were significantly higher. The Gro operations through Shangha branch in support of the fore trade of the People's Repub China have been strengthen by the establishment of a li office in Guangzhou (Cantor in 1974-75, Japan has shown t greatest resilience of the maj economies and the authorit eased their restrictive stance the year progressed. In cont the gross national product o South Korea fell. The Group's branches in both countries r satisfactory progress. In Aust our subsidiaries engaged in consumer finance and mer banking produced improved results. Operations of The Chartered Bank in South Ea Asia had a good year and ha continued to develop in ans to the more sophisticated demands of these growing economies.

Turning to the future, it is that with the notable except of Japan the major industria countries are set to achieve or no expansion in 1981. Two things at least are not lik change during the year: inflationary pressures, slow t yield to treatment, will contin press painfully on corporate costs, and international trad may at best repeat the indiff growth of 1980.

For an international bank as ours resilience and alertn opportunities will more than be the requisites of progress The record shows that our management in the Standa Chartered Bank Group poss these qualities in good mea

Profits before taxation up 37%
Earnings per share up 42%
Dividend up 25%
Shareholders' Funds up 23%
Total Assets up 19%

Total Assets $36 billion
Total Deposits $34 billion

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ix months from now you will probably ook at today's bond yields and ask: Vere they really that high?

BUY OF A LIFETIME?

By Ben Weberman

he bond market *wanted* to go up. It as just looking for an excuse. It nally found it in news reports sugesting the Reagan Administration ould be willing to take something ss than the full three-year, 30% emp-Roth tax-cut proposal. In a ouple of days, the new long-term reasury 13⅞% bond due 2011 ent from 99½ to 104.

If it seems curious that bond trads should be against tax cuts, it's a minder of what a topsy-turvy orld we live in. The market felt at massive tax cuts were inflaonary, especially in the face of ounting defense spending, and erefore bad for yields and prices.

My own guess is that the bond arket has finally turned and that e have seen the bottom in prices, ghs in yields. It's about time. nce mid-1978, yields on long-term deral bonds have risen from the % level to over 14%, bringing price osion of as much as 40% in 30-ear Treasuries.

Like most bear markets, this one ent much farther than common nse indicated and before Christas comes you will be saying: You ean I really *could* have gotten 5½%-plus on three-year Treasurs? It is probable that at least 100 sis points—a full 1%—of the deine was caused because extreme monetarists were criticizing the Fed for not being tough enough. This criticism panicked some market participants.

Why I think the turn has come:

The economy will not go into recession this year. However, economic growth will be only 2% to 4% and the Treasury deficit will come in far below pessimistic forecasts. So there should be a considerable cushion between demands for credit and the availability of funds. The Federal Reserve is committed to a policy of keeping monetary aggregates on a short leash, but will not have to pull as hard because the slower economic growth will generate less new money.

How does this square with the recent return of the prime rate to 20%? And why are the Federal Reserve Board and the White House so nervous *(see "What's Ahead for Business," p. 25)*? There's no contradiction really. The White House and the Fed are determined to strike a mighty blow against inflation. It remains my firm conviction that the inflation rate will be down to 8% by year-end. It is not inconceivable that, by letting money stay dear, the Fed may set off a wave of bankruptcies and a short, scary panic. My colleague Ashby Bladen talks about this on p. 185. But, whether inflation comes down fairly gently or with a crash, the bond market is sure to be a winner. Note this, though. Consistently I have recommended Treasury issues; in turbulent times stay with quality.

Look for the fastest drop to come in short-term yields. The overnight rate on federal funds is currently 18% and 90-day Treasuries yield 17.5%. They could be down to 8% and 7.5% respectively by year-end. For those of you who are now in money market funds this could translate into a drop from current yields of about 15% to as low as 9%. If you are interested in locking in current high rates, I'd suggest you begin moving further out on the maturity curve.

The yield curve will change shape dramatically. Today it has what is characterized as a "reverse" or "negative" slope. That is, rates of return are highest on short maturities and lowest on longest maturities. This is in contrast to the usual or normal upward slope, which assumes that the longer the maturity, the greater the risk, therefore the greater the return.

For the moment the best play in the market is in the middle maturity sector. If my assumptions about inflation and the yield curve are in fact realized, the biggest appreciation would be here. Fixed-income issues that come due in three to seven years would experience a yield decline from the current 15%-to-14.5% range to about 9%. In prices this would mean a gain of 15% to 30%, depending on which issue you hold.

A good strategy is to buy a moderate discount Treasury security due in about seven years. Hold until the price gets close to par and then cash it in and use the proceeds to buy a long-term issue.

The following table shows how this works. It includes current data and the yield curve assumptions I have made for 3-year, 7-year and 30-year Treasuries.

Profits in bonds

Issue	—5/15/81— Yield	Price	—12/31/81*— Yield	Price
9¼s 84	14.94%	86.68	9.00%	100.67
8¼s 88	14.26	74.00	9.00	96.25
10s 10	13.30	75.81	10.50	95.48

*Forbes' estimates

Under these conditions the three-year note would pick up 14 points of price, the seven-year note would advance 22¼ points and the long-term bond would move ahead by 20 points. A gain of 22¼ points between mid-May and year-end would bring an appreciation of an almost 50% annual rate. That is based on a profit of 22¼ points annualized and related to a cost of 74 for the note.

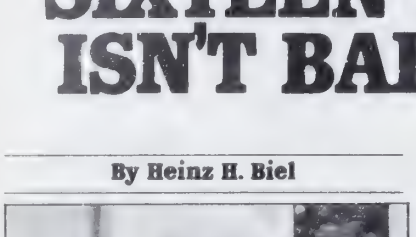
With potential profits like that, who needs the stock market? Who, in fact, needs Las Vegas? ■

n Weberman is economics editor of ORBES *magazine.*

The downside risk in stocks now seems to be as great as the upside potential; a good time to hold buying reserves.

SIXTEEN PERCENT ISN'T BAD, BUT . . .

By Heinz H. Biel



My aversion to bonds maturing in the far-distant future has not been lessened by today's seemingly tempting yields. Investors subject to income taxes are still getting a negative return after allowing for inflation, which, I believe, will drop below a two-digit rate only temporarily. Only an investor who is not subject to income taxes, such as a pension fund or a personal Keogh or IRA plan, will now get a fairly decent *positive* return from bonds—at least until our inflation gets completely out of hand. But this does not seem to be an immediate prospect.

Present high yields on bonds and on money market instruments undoubtedly affect the relative desirability of common stocks as an investment. The dividend return on the Dow Jones industrials is only about 5.7%. That is a far cry from the 14% to 17% available elsewhere, *risklessly*. In order to match such overall returns stock prices would have to appreciate substantially year after year to make up the difference. It's possible for some, but is it likely for all? Furthermore, the dividend yields of the stocks that an investor *should* own are usually substantially lower than the "average" yield.

The stock market's recent downward tendencies reflect these extraordinarily wide yield differentials. Besides, stocks in general are not particularly cheap anymore. It was one thing to buy, say, U.S. Steel at 20, when the risk/reward ratio was favorable. Now that the stock is selling in the 30s, the odds no longer favor the buyer. The investor's downside risk may be as great as the potential of a further rise. I feel that way about many stocks, including the ones I like. That's why I keep some money in reserve while waiting for the odds to improve.

Everyone is searching for what has become known as the *emerging growth* companies, trying to find them before every Tom, Dick and Harry has discovered them too. When Apple Computer came to the market last year, it was already well known and quite fully priced, even assuming that earnings per share would live up to glowing expectations. When competition for home computers begins to get tough, as it undoubtedly will, even Apple may find it difficult adequately to feed its 55 million shares.

The real bargains and exceptional opportunities come to the venture capitalists, the people who invest in embryonic enterprises and do their best to help them grow up. Do you think that is easy or enormously profitable? No, it isn't. Let me give you an example of a large venture capital outfit, *Heizer Corp.*, which went public a few weeks ago. Formed in 1969 with a blue-chip list of largely institutional shareholders, who provided the original capital of some $80 million, Heizer made investments in 32 companies. It lost money on 15 and some were only moderately profitable. But the ones that hit the jackpot did fabulously well. The $113 million invested over the years appreciated to $285 million. This works out to an annualized return of 20.5%. That i not bad. But when you consider th effort involved and the high risk that had to be taken, you woul really expect a little more than that Remember that nowadays you ca make 16% on top-quality bonds.

When I see how difficult it is t pick winners even for an organiza tion like Heizer, with its wealth and patient shareholders and its ac cess to sophisticated experts in al areas under consideration, I wonde about the future of the man "emerging" growth companies nov being offered en masse to an eage public.

Most of the buyers of such stock wouldn't understand the prospec tus—if they should bother to rea it—never mind being able to evalu ate a very young company's chance of success. One should also pay at tention to whether a public offerin is being used by a company' founders as a partial bailout. If th insiders sell, why should the outsid ers buy?

Although such new stock offer ings are usually being "priced t sell," most of them no longer rise t fat premiums above the offerin price. The *Wall Street Journal*, on it "Abreast of the Market" page, nov carries a list of recent securities of ferings. Currently 18 issues ar shown. Only 6 are quoted a point o more above the original offerin price. *Caveat emptor!*

Earnings of most oil companie are expected at best to be rather fla this year, and while oil stocks ma rally from their severe and probabl exaggerated selloff, they are unlikel to regain for some time to come al the ground they have lost. Prospect for the oilfield services industr seem brighter. Earnings should con tinue to show significant gain quarter after quarter, and the share of these companies may respond.

A stock like *Schlumberger* retain its hallowed stature, but many inves tors balk at the still high earning multiple. They might prefer *Hughe Tool* (80) or *NL Industries* (70), which sell at a more tolerable multiple o about 12 times *current* earnings However, if Hughes Tool can attain estimated 1981 earnings of bette than $8 a share and NL approachin $8, then the P/E drops below 10 which is quite modest for companie enjoying rapid growth. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

Iany of the same factors that make onds attractive make stocks attractive.

IMPATIENT MONEY

By Ann C. Brown

ever overestimate the power of e big rally in bonds, which enrely too many "well-informed" urces predict will descend upon us y minute now. To be sure, one of ese days the bond market will rn—few things go straight down rever—but individual investors, less they are very, very wealthy d very, very nimble, may be conderably better off sitting out this ppening when and if it occurs.

First of all, I doubt that inflation ill come down to anywhere near e 5% rate that the Reagan Admintration forecasts for 1984. My ess is that it will be 8% at best cause of the expectations and deands of labor, increased defense ending and continued pressure om the beneficiaries of social proams. Add to these forces the vagaes of the weather as it affects agriltural crops, the trend toward otectionism, the increasing dendence upon foreign oil and other mmodities whose prices are beond our control, and inflation is kely to remain at an uncomfortly high level. Since bond yields e inflation-related, there may be me relief in the short-to-intermeate-term market but considerably ss in the longer-term issues.

Second, there are billions of dollars of new bond offerings waiting in the wings ready to fly into the market as any noticeable rate downturn occurs. There are also billions of dollars trapped in old lower-yield bonds maturing in 1990 and beyond waiting to be sold once prices start to rise. This potential heavy increase in supply could throw a wet blanket over demand and dampen much of the expected bond price appreciation.

Third, the secondary markets in corporates and tax exempts are notoriously illiquid, particularly in units of less than $100,000. As a result, the spread between the bid and ask prices is often enormous, in many cases large enough to wipe out most of your capital gains, even if you happen to call the interest-rate turn correctly. As far as I'm concerned, bond trading has been and still is a game to be played by insurance companies, pension funds and other large institutional investors, whose clout is big and whose tax consequences are small, if indeed there are any at all.

At times like this, it is wise for the individual investor to remember that many of the same factors that make bonds attractive make stocks attractive, too. A diminishing inflation rate improves the quality of earnings and generally boosts stock multiples. Lower interest rates tend to stimulate new investment in more efficient plants and equipment, thereby helping to improve productivity and, in time, brighten the bottom line.

One company whose bottom line keeps on making pleasant reading year after year is *Pogo Producing* (31). I first recommended the stock in early 1978 at a price of 10 and recommended it again a little more than a year ago at 20. The stock shot up to almost 40 during the waning months of last year's energy-equity boomlet, before retreating earlier this year to the high 20s in sympathy with the rest of the glut group. Recent action indicates that Pogo Producing is once again returning to investor favor, and the company could show earnings per share of $2.90 (fully diluted) for 1981, up from $2.13 in 1980.

What interests me most about Pogo Producing is its strong position in natural gas. Despite initial denials, I think the Reagan Administration may move to decontrol the price of natural gas more rapidly than most people anticipate. Whether or not this proves to be the case, Pogo is already benefiting from the decontrol of gas from producing wells drilled below 15,000 feet. In the first quarter of this year, the company realized $1.67 per thousand cubic feet of gas, up from $1.44 for the same period a year earlier. By year-end, this could rise to $2 per mcf.

A new recommendation, *Andrew Corp.* (34 bid, o-t-c), is a closely held company that has only been public for about a year now. The company is the largest supplier of microwave antennas and coaxial cable to the worldwide telecommunications market. In addition, it manufactures earth station antennas for use in conjunction with satellites and special-application antennas used in FM and television broadcasting, military telemetry, radar and air navigation and control.

Over the past several years, Andrew Corp.'s sales have been growing about 22% per annum, which should continue, if not increase, during the decade. The company's operating earnings have increased around 15% per year but are expected to rise sharply in fiscal 1982 due to the completion of a new manufacturing facility and lower interest expenses. For the fiscal year ending September 1981, Andrew Corp. is estimated to earn $1.90 per share. Preliminary estimates for fiscal 1982 are for $2.35 per share, with as much as $4.40 possible by 1985. With data communications all the rage in the U.S. and other industrialized countries, and with the developing nations establishing telecommunications networks at a rapid rate, Andrew Corp. would appear to have a promising future. ■

n C. Brown is executive vice president of New York investment firm of Melhado, nn & Associates.

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BEEHIVE INTERNATIONAL O

NET SALES REACH NEW THREE MONTH HIGH IN BEEHIVE INTERNATIONAL'S FISCAL 1981 SECOND QUARTER

SALT LAKE CITY, Utah, April 21, 1981—Beehive International has reported net sales and other income for its second quarter ended March 31, 1981 of $9,770,992 compared with $8,507,320 for the second quarter of fiscal 1980. Net income from operations for the quarter was $1,027,615 or 40¢ per share, compared with $695,001, before extraordinary item, or 28¢ per share for the same period last year. Net income, including an extraordinary item, for the second quarter, fiscal 1980, was $928,001 or 37¢ per share.

Beehive also reported that net sales and net income in the second quarter of fiscal 1981 set new highs for any quarter in Beehive's twelve-year history. Year-to-date net sales of $19.3 million and net income of $2.1 million were higher by 37% and 212% respectively over the first six months of fiscal 1980. Earnings per share for the first six months of fiscal 1981 were 80¢ per share. All per share numbers reflect a two-for-one stock split made in February, 1981.

During the quarter, contracts with potential in excess of $9.5 million were signed with both new and established customers and Beehive signed a new unsecured $6 million line of credit with interest at prime rate. In the first week of April, ground was broken on a new manufacturing plant in Ireland and the company completed a stock offering of 551,000 shares.

"The events of our second quarter have established new levels of optimism and underscore the company's determination to increase its rate of progress in a very competitive marketplace," stated Warren Clifford, Beehive International's President and Chief Eecutive Officer.

BEEHIVE INTERNATIONAL

FINANCIAL SUMMARY

Unaudited

	3 Mos. Ended		6 Mos. Ended	
	3/31/81	3/31/80	3/31/81	3/31/80
Net sales and other income	**$9,770,992**	$8,507,320	**$19,327,055**	$14,114,478
Income from operations before taxes	**1,640,336**	956,001	**3,298,498**	686,270
Income taxes	**(612,721)**	(261,000)	**1,247,721**	(261,000)
Net income from operations	**1,027,615**	695,001	**2,050,777**	425,270
Extraordinary item	—	233,000[a]	—	233,000[a]
Net income	**$1,027,615**	$ 928,001	**$2,050,777**	$ 658,270
Earnings per share:				
Income from operations	**$.40**	$.28	**$.80[b]**	$.17[b]
From extraordinary item	—	.09[a]	—	.09[a]
Net income	**.40[b]**	.37[b]	**.80[b]**	.26[b]
Weighted average shares outstanding	**$2,563,223[b]**	2,534,890[b]	**2,560,753[b]**	2,534,890[b]

(a)—Tax loss carryforward

(b)—Adjusted for 2-for-1 stock split in February 1981.

(Contact: Richard Beck, Senior Vice President, Finance & Treasurer, Beehive International, P.O. Box 25668, Salt Lake City, UT 84125. Phone: (801) 355-6000.)

CENTRAL LOUISIANA ENERGY CORPORATION N

REPORTS RECORD FIRST QUARTER RESULTS

LAFAYETTE, LA. May 6 Central Louisiana Energy Corporation (NYSE) reported record results for the first quarter 1981 announced Gale L. Galloway, Chairman, President and Chief Executive Officer.

For the three months ended March 31, 1981, total revenues were $356.8 million, 50% above the comparable period of the prior year. Net income rose to $28.9 million, an increase of 78% over the $16.2 million earned in the first quarter last year. Per share earnings stated on the basis of 11% more shares outstanding were $1.34 compared with the $.84 reported in the similar period last year.

"We are particularly encouraged by the results, as all major segments of the Company's business continued to show marked improvement in the first quarter. Increased natural gas transportation and Company-owned gas production were the most important contributors to our enhanced profit picture for the period," Mr. Galloway said.

Commenting on the outlook for the rest of 1981, Mr. Galloway said, "We are confident in the growth prospects for our primary businesses as the remainder of the year unfolds. We anticipate that our pipeline operations and our exploration and production activities will continue to show increased profits."

"We were pleased to announce in early May that the Company successfully completed its No. 1 Mead, a significant development well in the Irene Field. On a six-hour test, the well flowed at a rate of 7.1 million cubic feet of gas plus 264 barrels of condensate a day through a 15/64-inch choke with a flowing tubing pressure of 4,580 psig."

Mr. Galloway continued, "While the electric utility portion of our business now contributes less than 20% of consolidated earnings, we feel it should continue to report steady growth aided by the $16.2 million annual rate increase received in March."

Mr. Galloway stated, "We expect the scope of our operations and the strength of our marketplace to enable Central Louisiana Energy to capitalize upon the exciting opportunities which exist within the broad energy arena."

Central Louisiana Energy Corporation is a diversified energy company which, through its six subsidiaries, operates gas pipelines, engages in oil and gas exploration and production, crude oil refining, gas processing and provides electric, gas and water service to about 281,100 customers within Louisiana. The Company's shares are traded on the New York Stock Exchange under the symbol "CEL."

(Contact: Carl S. Quinn, Vice President and Chief Financial Officer, or H. Richard Boultinghouse, Jr., Vice President and Corporate Secretary of Central Louisiana Energy Corporation, P.O. Box 90908, Lafayette, LA 70509. Phone: (318) 232-5700.)

COLOR TILE, INC. O

FORT WORTH, TX., April 21, 1981—Color Tile, Inc. reports sales increase of 14.5 percent for the nine months ended March 31, 1981.

Color Tile, Inc. reported sales for the third quarter increase 8.4 percent to $61.1 million up from $56.3 million a year earlier.

Earnings decreased 20 percent to $3.0 million, or $0.28 per share, when compared to $3.8 million, or $0.38 per share for the prior year's third quarter.

The quarterly gross profit increased to 53.6 percent from 53.0 percent as a percent of sales, based on LIFO method of inventory valuation.

Nine month sales rose 14.5 percent to $174.8 million from $152.6 million. Earnings decreased 4.9 percent to $8.4 million, or $0.77 per share, from $8.8 million, or $0.88 per share, with 9 percent more shares outstanding. The nine months gross profit increased to 53.1 percent from 51.8 percent as a percent to sales based on LIFO method of inventory valuation.

Inventories decreased from $56.1 million at December 31, 1980, to $50.3 million at March 31, 1981. Fourteen new stores were opened during the third quarter to make 514 stores in operation at March 31, 1981.

	Nine Months Ended March 31	
	1981	1980
Net sales	**$174,801,000**	$152,583,000
Income before income taxes	**$ 15,504,000**	$ 16,305,000
Provision for income taxes	**7,131,000**	7,498,000
Net income	**$ 8,373,000**	$ 8,807,000
Average shares outstanding	**10,879,000**	9,973,000
Income per average common share	**$0.77**	$0.88

"Although sales have been sluggish this ye the company's historical sales growth, we are see that our planned programs for gross profit reduction of inventory levels are responding stated John A. Wilson, Chairman of the Boar and Chief Executive Officer.

(Contact: Ray A. Johnson, Vice President Color Tile, Inc., 1700 One Tandy Center, Ft. Wort Phone: (817) 390-3049.)

GROW GROUP, INC.

(GRO) NEW YORK, N.Y. Grow Group, Inc. recorde in net earnings on a 5% gain in revenue for its quarter. For the three month period ended M earnings rose to $582,000 compared with $532 like period a year earlier while revenues were compared with $54,331,000. For the nine m ended March 31 net earnings rose to $3,39 $2,978,000 and revenues increased to $177,1 $167,255,000. Primary earnings per share wer pared to $.70 and fully diluted earnings were pared with $.59 for the same period a year quarterly cash dividend was paid on April 30, represents the 68th consecutive quarterly pa 1964.

Through its newly formed Grow Venture Corp company has brought to completion and has i the trade, a revolutionary non-polluting dispens ogy for areosol/pressurized package systems Enviro-Spray® This technological breakthrou made available nationally to major industries a is in a controlled consumer market test.

In December 1980 the company also announ commercial installation of the Thermaljet® foo which brings a totally new cooking technology billion-a-year prepared meat market.

The company purchased from the Sun Lif Company of America all of their holdings of Gr Stock which consisted of 354,468 at a price c share. The purpose of this purchase was to available for stock options, future stock dividen corporate requirements.

(Contact: Russell Banks, President and Chi Officer, Grow Group, Inc., 200 Park Avenue, Ne (212) 599-4400).

MARCH RESOURCES LIMITED

VANCOUVER, May 5, 1981—March Resour has been informed by their operators, Destin Inc. that the Barber No. 1, 2, 4 and 5 wells Mitchell County, Texas after recovering a portion water, the wells were potentialed on April follows:

BARBER #1 41 BOPD & 18 Barrels of Load Wa The oil measured 30.1° API.

BARBER #2 46 BOPD & 17 Barrels of Load Wa The oil measured 30° API.

BARBER #4 43 BOPD & 24 Barrels of Load Wa The oil measured 30.1° API.

BARBER #5 46 BOPD & 22 Barrels of Load Wa The oil measured 31° API.

March Resources Limited has a 5 perce interest and a 3.75 percent net revenue inte subject wells.

March Resources Limited has also been inform operators, Command Energy Corporation of Texas that the Simpson #4 well located i County, Texas has been drilled to total depth a tion casings have been installed and are prese ing a service rig. March Resources Limited ha percent working interest, and a 17.5 percent interest in the subject well.

The company has also been informed by

ORPORATE REPORT Updates

ration that drilling has almost been completed #1 well located in Eastland County, Texas ire graph is showing 1,000 units of Methane, t oil cut and heavy fluorescence showings 0-2,490 feet. March Resources Limited has an interest and 7 percent net revenue interest in ell.

Frank J. Matthews, President or Anthony Agos-y, March Resources Ltd. 202-595 Howe St., C. Canada V6C 2T5. Phone: (604) 687-8867.)

SOURCES LIMITED V-O

R, April 24, 1981—March Resources Limited ormed by Command Energy Corporation that ommence on the 36 well drilling program the f May, 1981, and that all 36 wells will be e end of the year 1981. March Resources elected to purchase a 13.125 percent working 5 percent NRI), at a total cost $1.296 million ell head.

sources Limited has also entered into an ith Erde Exploration Company of Midland, regulatory approval, to purchase a 10 percent est (7.5 to 8 percent NRI) of a 9 well program Shelf, Midland Basin, Texas. The program is different prospects, totaling 12,646 gross 1,816 net acres. Estimated field reserves 0,000 barrels of oil.

ources Limited's cost for this project will be S. to casing point and $520,000 U.S. to

Frank J. Matthews, President, March Resourc-202-595 Howe St., Vancouver, Canada V6C 604) 687-8867.)

RGY RESOURCES LTD. O

R, May 5, 1981—Pryme Energy Resources Ltd. ormed by their operators, Destiny Petroleum Barber No. 1, 2, 4 and 5 wells located in ty, Texas after recovering a portion of the load ells were potentialed on April 3, 1981 as

41 BOPD & 18 Barrels of Load Water per day. The oil measured 30.1° API.
46 BOPD & 17 Barrels of Load Water per day. The oil measured 30° API.
43 BOPD & 24 Barrels of Load Water per day. The oil measured 30.1° API.
46 BOPD & 22 Barrels of Load Water per day. The oil measured 31° API.

ergy Resources has a 7½ percent working a 5.625 percent net revenue interest in the

rgy Resources has also been informed by their ommand Energy Corporation of Fort Worth, the Simpson #4 well located in Eastland s has been drilled to total depth and produc-have been installed and are presently await-rig. Pryme Energy Resources Limited has a nt working interest, and a 17.5 percent net est in the subject well.

any has also been informed by Command ration that drilling has almost been completed #1 well located in Eastland County, Texas ire graph is showing 1,000 units of Methane, t oil cut and heavy fluorescence showings 0-2,490 feet. Pryme Energy Resources Limited working interest and 7 percent net revenue e subject well.

Tony Agostino, President, Pryme Energy Re-#202-595 Howe St., Vancouver, B.C. Canada ne: (604) 687-8867.)

PRECISION PRODUCTS, INC. N

N, N.Y., April 22, 1981—Simmonds Precision today reported record first quarter income ng operations of $2,161,000, equal to $.44 per es of $34,120,000.

This compares with income from continuing operations in the 1980 first quarter of $1,783,000, or $.37 per share, on sales of $81,763,000.

Net Income in the 1981 first quarter doubled to $2,161,000, or $.44 per share, despite substantially higher interest expense and a negative swing in foreign currency exchange from last year's first quarter which together amounted to $.09 per share. In the prior year's quarter net income was $1,075,000, or $.22 per share, after a loss of $708,000, or $.15 per share, from discontinued operations.

Geoffrey R. Simmonds, Chairman & Chief Executive Officer, said the 1981 first quarter "continues to demonstrate the fundamental earnings power of our core aerospace and industrial business." The company has redirected a substantial portion of its development efforts from aircraft performance systems to computerized systems in the company's traditional product areas, he explained. A year ago, first quarter income from continuing operations included a charge of $500,000, equal to $.10 per share, related to the cancellation by an airline of an order for Performance Advisory Systems.

Backlog at March 31, 1981 was $129,200,000 compared with $126,300,000 at the end of the 1980 quarter.

SUMMARY
Simmonds Precision Products, Inc.
for the three months ended March 31:

Continuing Operations:	1981	1980
Sales	$34,120,000	$31,763,000
Income Before Taxes	3,901,000	2,914,000
Net Income		
Continuing Operations	2,161,000	1,783,000
Discontinued Operations	—	(708,000)
Total	2,161,000	1,075,000
Net Income Per Share		
Continuing Operations	$.44	$.37
Discontinued Operations	—	(.15)
	$.44	$.22

(Contact: Howard F. Matus, Simmonds Precision Products, Inc., 150 White Plains Road, Tarrytown, N.Y. 10591. Phone: (914) 631-7500.)

TELEFLEX INCORPORATED A

LIMERICK, PA, April 14, 1981—Teleflex Incorporated today reported a gain in first quarter earnings of 50% on a revenue increase of 35%.

Net income for the quarter ended March 29, 1981, amounted to $1,581,000 or $.51 per share versus $1,027,000 or $.34 per share in 1980. Revenues increased to $24,907,000 compared to $18,443,000 for the same period last year.

COMPARATIVE SUMMARY
OF REVENUES AND EARNINGS
(Unaudited)

	Three Months Ended	
	March 29	March 30
	1981	1980
Revenues	$24,907,000	$18,443,000
Income before taxes	$ 2,927,000	$ 1,902,000
Net income	$ 1,581,000	$ 1,027,000
Earnings per share	$.51	$.34(a)

(a) Adjusted to reflect the two-for-one stock split distributed December 15, 1980.

The dramatic increases were the result of continued improvement in the sales of the company's technical products and a stronger than expected performance by the company's commercial operations, according to senior vice president John H. Remer.

"Better than anticipated sales of our controls to the automotive industry and a moderate rebound in our marine products had a very positive effect on the results," Remer said. "The outlook for the remainder of the year continues to be favorable, although economic factors could temper our rates of increase."

Teleflex is an engineering company whose primary business is the development and marketing of problem-solving specialized technologies in both commercial and technical market areas.

(Contact: Seaborn C. Langley, Director of Corporate Communications, Teleflex Incorporated, 155 South Limerick Road, Limerick, PA 19468. Phone: (215) 948-5100.)

UNITED ENERGY RESOURCES, INC. N

HOUSTON, May 4—United Energy Resources, Inc., today reported a 33 percent increase in unaudited consolidated net income for the first quarter of 1981. Net income was $55.4 million on revenues of $1.3 billion in 1981, compared with net income of $41.7 million on revenues of $1 billion for the first quarter of 1980.

Earnings per share for the first quarter of 1981 were $1.99 on 27.8 million shares outstanding compared with $1.62 per share on 25.8 million shares outstanding in the first quarter of 1980, a 23 percent increase after incorporating the full impact of the company's two million share stock offering in December 1980.

United Energy Resources is the parent company of United Gas Pipe Line Company (Interstate Gas Transmission), United Texas Transmission Company (Intrastate Gas Transmission), Cotton Petroleum Corporation (Oil and Gas Exploration), Development and Production), United Energy Services Company (Contract drilling and well servicing) and Petrounited, Inc. (bulk liquids terminaling and marketing).

J. Hugh Roff, Jr., United Energy's Chairman, President and Chief Executive Officer, said the operations of each principal subsidiary contributed to the improved first quarter results.

United Energy's consolidated net income for the 12 months ended March 31, 1981 was $179.2 million, or $6.78 per share, on operating revenues of $4.4 billion, compared with net income of $127 million, or $5.07 per share, on operating revenues of $3.5 billion for the 12 months ended March 31, 1980.

Earnings per share and weighted average number of shares outstanding have been restated to reflect a distribution in the nature of a two-for-one stock split effective April 1, 1980.

(Contact: C. Ray Holland, Public Relations Director, or Gary N. Willis, Coordinator, Financial Relations, United Energy Resources, Inc., P.O. Box 1478, Houston, TX 77001. Phone: (713) 237-5300.)

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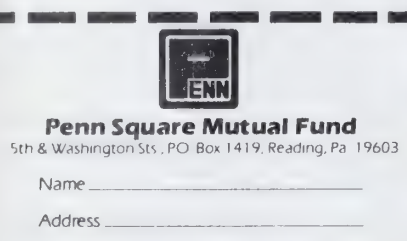

IN OUR FIGHT AGAINST BIRTH DEFECTS
MARCH OF DIMES

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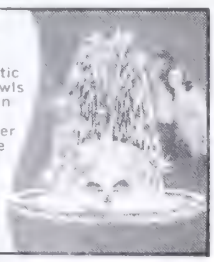

There are more animals in Wall Street zoo than just bears and bulls.

THE BOOM-BUST MENTALITY

By Srully Blotnick

He is a well-known security analyst, and his recommendations have influenced the purchase and sale of millions of shares of stock. If you knew what I know, I think you'd take his advice cautiously, if at all.

During our first meeting he was in a manic mood. "I'm a roaring bull," he proclaimed. "The earnings of every company I follow will double—some will triple or quadruple—and these stocks will skyrocket. This group is about to soar."

"Fine," I thought to myself, "maybe he's right, although his enthusiasm seems quite excessive. Time will tell."

Six months later he was expressing no opinion at all. "Everything is in a state of flux," he said tensely. "The situation is changing every day. The future is very unclear."

It was clear to me that he wanted to bolt in one direction or the other—be highly bullish or grimly bearish—but was restraining himself. Having to stay in one place in neutral territory was the worst form of torture for him.

During our next meeting seven months later, it was apparent that he'd broken out of his self-imposed prison. "The whole industry is going to pot," he said with an infectious pessimism. "Half these co panies will be losing money so Dark days are coming."

He was visibly agitated, strangely happy, enjoying ev minute of the bleak sermon he preaching. In fact, he mentio that he'd just put in a call to a porter he knew at the *Wall St Journal*. "I want to spread word," he said, with a showy se of public responsibility. What really meant is that he wanted credit—in print—for being the f to realize that the sky was abou fall. As he put it: "I want them al remember who they heard it fr first." The *Journal* did indeed his comments in one of its stor though to its credit, in muted fo

Good thing too. For less than months later his mood had sw widely once again, carrying back toward extreme bullishness was at that point that he utte what I'll always consider one of true classics of the manic-dep sive investment mentality. "If th companies don't go bankrupt in next few months," he said soler ly, "they'll all be earning at least a share in a few years."

It has been a year since he that, and in the intervening per he has become bearish. "We co be on the brink of a financial lapse," he said a few days ago. seems to have forgotten he said actly the same thing two ye ago—and 2½ years before that.

When people tell us someth it's often critically important to ure out why they're saying w they're saying. Getting to the derlying motives could save us fr taking their advice seriously and ing ourselves harm.

An individual's personality color his judgment profoundly, nowhere is that more true t

Dr. Srully Blotnick is a practicing psychologist and author of Getting Rich Your Own Way *and* Winning: The Psychology of Successful Investing.

an investment adviser. Two lly competent researchers could y the same firm and come to tly opposite conclusions. Ditto the market as a whole. Person- isn't always involved, but it lly is, and affects the outcome iderably. Optimists tend to be sh, pessimists to be bearish, manic-depressives—well, they ce back and forth from one ex- e to the other. First, they want o buy like crazy. Then, as soon ur portfolio is full, they want to empty it. Fast. No wonder erage firms love 'em.

e comments of well-known se- ies analysts are taken seriously oth individual and institutional stors. In the majority of cases, s appropriate. Many are knowl- able about the industries they r. However, a substantial num- ake the information they gath- nd cram it into an extremely ive or negative forecast. Re- ding to the exaggerated hopes rs, customers rush to seize—or -stocks that they would have better advised to leave alone.

e the analysts we're talking t acting manipulatively, delib- ly helping to churn accounts? Most aren't even aware they're g it. In fact, they'd be mortified alize how extremist the history eir own recommendations has . The instability of their per- ities magnifies every market l. And that's the reason you to be so wary of what they say.

e all know the absurd excesses kind of thing produces. In late the stock market said Exxon worth nearly $90 a share; less six months later, just $60—a illion difference. Yet not much hanged. Same company, same s and the same long-term situa- in oil. Other examples? A year American Airlines sold for 8; it is 19. It's still the same com- and business hasn't improved n. Apparently oil analysts are in pressive phase; airline analysts manic one.

short, one of the oldest Wall t saws is: There's room for , and there's room for bulls, but 's no room for pigs.

cover current conditions, we another saying: Anyone who ks there's room only for bulls ears is a jackass. ■

1,551,787 shares

of its Common Stock
were acquired by Foremost-McKesson, Inc.
from Sharon Steel Corporation.

The undersigned assisted both parties
in the negotiation and consummation
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LOS ANGELES

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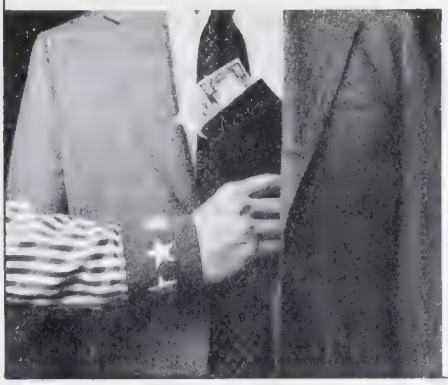

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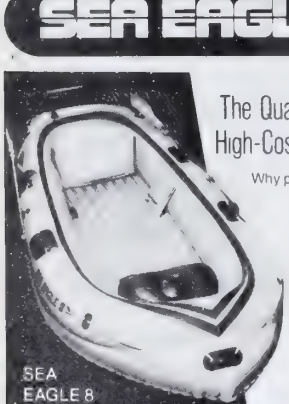

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Robert Wilson expects to make the be part of a billion dollars. Here's how.

ADVICE FROM A WISE MAN

By John Train

In 1958 his father gave Robert Wilson $15,000, which Wilson has run into several tens of millions over a 20-year period. Then he found himself a niche in Wall Street folklore by dropping a reported $20 million in a single short in Resorts International. But he assured one and all that he'd make it all back.

In reflecting on his horrible experience, he realized that America, about which he'd been deeply gloomy, had apparently changed course. Some of our native spunk has reappeared. He also feels that we are favoring enterprise again, and the economy, the stock market and inflation will improve. Wilson expects to make the best part of a billion dollars by the time the market peaks some years from now. He's off to a fast start with gains of 60% in 1979 and 70% last year.

He continues to like two categories of investments, which in our talks we called "new-wave" and "wall-of-fear" stocks.

New-wave stocks, Wilson says, are companies that are doing something that was never done before, or else that is being done in a highly novel way.

An example? *Datapoint.* It is driven to come up with new discover-

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters *and* Dance of the Money Bees.

ies, new solutions. Having sta out with a determination to b the office of the future—not with intelligent terminals—it branched out to many other ar such as integrated communicati One device selects the chea route to use in calling long dista another spots people in an of who talk too much on the t phone. Wilson expects Datapoin go on growing at 40% a year. It is the mid-50s, an expensive st but not excessively so.

Similarly, *Engelhard Minerals Chemicals* is performing a funct in trading commodities, ores and that did not exist previously, *Federal Express* created a new m ket, the overnight delivery serv Other new-wave stocks would *Docutel* and *Diebold* in bank auto tion; *ISC*, whose terminals are u in savings and loans; the Atari d sion of *Warner*; and *Apple* and *Co modore* in computers. Likew *Tandy*, which indeed lives off m products—first stereo, then c zen's band radio, then comput *Cray Computer* now does things t no one thought could be done. instance, improvements in weat prediction are in part due to sa lites, but also in part to the v large computers that Cray mak CATV, similarly, will bring a m capability to do things.

Wilson thinks in-home care w be the medical revolution of next decade. It can be achieved private enterprise. He likes *Qua Care* and *Kelly Girl*.

Other new waves: the pre housing that the mobile-home co panies are in; *Sony*'s constant in vations in consumer electronics variation is the mature indus that becomes rejuvenated, like railroads, thanks to deregulation

He bets on people, and is th

cted to small oil exploration panies with aggressive, gutsy agement: *Texas International Basic Earth Sciences*.

nother one of Wilson's key ideas at the market "climbs a wall of " If investors already believe in mpany, then even if it does well stock won't move, since the l news is discounted. If, on the rary, everybody is frightened of mpany but it doesn't collapse, when the fear melts, the stock advance.

own *Lockheed*," said Wilson, about 27. It's the premier de- e contractor, with the most resting programs. But it also es the L-1011 civilian aircraft, which it has lost hundreds of ions of dollars. But now 've had enough—they've said nuch.

ockheed will earn about $8 a e in 1981 from defense, $12 in 2, and perhaps $15 in a few years. ses $4 on the L-1011. So if it els the L-1011 program, instead porting $8 in 1982 it could re- $12, and the stock, at scarcely twice earnings, will soar."

ndahl is another example. "It nds like a me-too IBM, so people fraid of it," says Wilson. "Actu- though, it's better than IBM. dahl could earn $15 a year in six seven years. Recent earnings been disappointing, but mostly use of the sales/lease ratio, not use of the fundamentals. Once, 120, it was a darling of Wall et. Probably it will be again. But selling for only $37."

ilson owns *Molex*, an excellent ufacturer of electronic connec- "It grows 35% a year, the stock es up, it's dull. Still, it makes feel virtuous. If my net worth vs 35% a year long enough, e day I'll be somebody."

ne whole market is a wall-of- situation. It's reasonably priced ess the whole scheme of things oming unstuck. In the old days ple said that the best strategy to buy a good stock and put it y. That, says Wilson, is now again: but not the Dow stocks, not even Hewlett-Packard, Tex- Instruments or IBM. No, the ks to put away are the new- e companies that are doing ething important, something ting. ■

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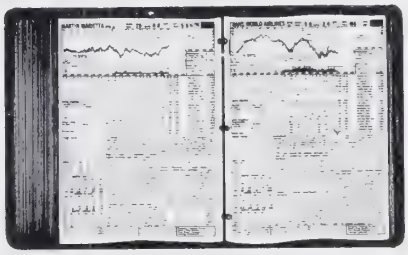

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"Only suckers buy high-yielding stocks." Those investors who believe that, don't really understand the stock market.

HOW TO HAVE YOUR CAKE AND EAT IT

By David Dreman

You can go for either of two targets: for capital gains or for income. The two goals are not compatible. So goes the conventional wisdom. The conventional wisdom is, as usual, quite wrong. We undertook a major computer study between 1968 and 1977, using 1,800 of the most widely followed companies in the country. The time span covered both the wild and woolly go-go markets of the late Sixties and the two worst bear markets of the postwar period. What we found was that, far from being incompatible, the pursuit of high income and of superior capital gains usually go hand in hand in the stock market. Look at the table:

rearranged each year-end by the P/E multiples then prevailing. The top group (1) comprises the highest P/E multiples, the bottom (10) the lowest. The table gives the average annual total return followed by the breakdown into its two components, yield and capital appreciation. Even a fast glance at the table indicates the superior results of the lower-multiple groups. (Results in the four middle groups, omitted because of space limitations, improved as the price/earnings level dropped.)

When you analyze this superior performance of the low P/E stocks you might expect that most of it comes from their higher dividends. What is surprising is that low P/Es do better in the capital gains sweepstakes. Appreciation, in most cases, is directly inverse to P/E ratio.

Over the life of the study, the bottom 10% of P/Es appreciated 6.20% annually, *vs.* -2.28% for the highest P/Es. In the 1970-76 period the lowest group still outran the top group better than 2-to-1 (10.29% *vs.* 4.85%). In every other time period measured, we came up with remarkably similar results.

Annual rate of return

		1968-77			1970-76		
	Decile	Total annual return	Yield	Appreciation	Total annual return	Yield	Appreciation
Highest P/E	1	-1.13%	1.15%	-2.28%	6.10%	1.25%	4.85%
	2	0.56	1.70	-1.14	6.25	1.80	4.45
	3	1.63	2.21	-0.58	8.01	2.36	5.65
	8	8.56	4.18	4.38	12.79	4.43	8.36
	9	6.08	4.22	1.86	8.61	4.34	4.27
Lowest P/E	10	10.26	4.06	6.20	14.13	3.84	10.29

Two sets of figures are presented. The first covers the entire nine years of the study; the second the better markets between the bear market low of 1970 and the interim highs of 1976. All stocks were arranged in ten equal groupings strictly according to P/E multiples and

Contrary to what the good books say, then, these rather startling but well-documented statistics indicate that you can have your cake and eat it too. Low P/E stocks provide both better appreciation and much hig er income.

The study also indicates t stronger defensive nature of t large-dividend payers. In the poor market period in particular, the su stantially larger yields of the low P stocks were a major contributor the higher returns, and thus to th better performance.

This being so, which stocks of the right combination of high yie plus capital gains potential? He are some good ones:

- *Chemical Bank* (52), the natio sixth-largest bank, currently yiel 7.3% and trades at a P/E of 4. Ea ings should show a good impro ment from 1980's $11.17 a share.
- *Wells Fargo* (28), the tenth-la est bank holding company, yiel 6.7% and has a P/E of 5. Earnings a estimated to increase 22% in 19 from the $5.32 of 1980.
- *Travelers* (45) is a multiline i surance company that has been ab to raise rates and keep earnin growth ahead of inflation. In the la decade, the company's earnings p share, although volatile, ha shown an almost 20% annual i crease. The stock currently trades a P/E of 5 and yields 6.3%.
- *Shell Transport & Trading* (3 the British arm of Royal Dutch, h been knocked down 33% from November high. The stock preser good value trading at a P/E of 5 a yielding 11%.
- *Anglo American Gold Investme ADR*, one of the largest South Af can gold holding companies, h major interests in four large Sou African mines, as well as a stake uranium and gold mines abro Currently down from its alltir high of 149, to 87, the stock trad at about a 40% discount from t market value of its holdings, a yields 11.3%.

Are all the stock market winn in the high-yield, low P/E groups? course not, but of this you can certain: A faithful and diversifi adherence to a low P/E, high-yie strategy will enable you to be most other investors—professior and amateur alike. I have 40 yea worth of studies to prove it. ■

David Dreman is managing director of D man, Gray & King, Investment Coun New York, and author of Contrarian Inve ment Strategy

'e need a financial crisis, but we do not eed the kind of mess that blind adher- ıce to monetarism could create.

THE MENACE OF MONETARISM

By Ashby Bladen

:h of the last four credit crunches led when the Fed panicked at the t sign of a developing financial sis and flooded the economy with uidity. So the crunch failed to ac- nplish its intended purpose, and h time the inflation came back onger than ever. Now the Fed has active support of the Adminis- cion, and I believe that it does not end to fail at the fifth try. This e I think that the danger is not ure, but overkill.

'he reason the Fed panicked and ed in 1966, in 1970, in 1975 and in in 1980 was that its theory ut the workings of our financial tem didn't tell it that the infla- ı could only be broken by a credit sis that left people too scared to row and spend excessively. By ling back short of such a fright, Fed failed to end inflation.

y now I believe that at least some he Fed's governors realize that a sis is necessary. And their theory ut what they are supposed to be ng is also changing, but it is nging in the direction of mone- st gradualism. This time there is eat danger that the growing influ- e of monetarist doctrines will se the Fed to continue to squeeze g after everyone is most satisfactorily scared. If the Fed is to decisively break the inflation without going too far, it will have to develop a clearer understanding of the mechanics of inflation than it currently appears to possess.

Everyone agrees that inflation is caused by creating purchasing power at a faster rate than we are producing real goods and services that are available to be purchased, but there is no unanimous opinion about exactly how we do that. We all know that in our personal affairs we get more purchasing power than we have earned by borrowing, but our generally accepted theories do not admit that society as a whole can do the same thing that simply. Many people assume that another dollar has to be created before anybody can borrow it. Thus they believe that inflationary increases in purchasing power are created by growth in the money supply.

My own views are quite different. First, as long as the financial system is liquid, lenders will accommodate everyone who is willing to pay somewhat more than the going rate of interest, even if they don't happen to have any spare cash on hand at the moment. They do this by reselling old loans or by borrowing themselves, using existing loans as collateral. They will borrow to lend as long as they can lend for more than it costs them to borrow. The prevalence of floating-rate loans today is making it safer for lenders to do this.

Thus, as long as the Fed remains committed to keeping the market for debt instruments liquid, the financial system can create an infinite amount of credit more or less regardless of the rate of growth of the money supply. In short, monetarism does not provide the answers. That is why I have insisted for nearly 20 years that we face two stark alternatives: 1) accelerating inflation, culminating ultimately in hyperinflation, or 2) a deflationary liquidity crisis.

Arguing with a monetarist is something like trying to grab hold of an eel because there are both a strict and a loose version of the doctrine, and monetarists slip dexterously back and forth between them to suit their convenience at the moment. The strict version asserts merely that there are observable relationships between changes in the money supply and subsequent changes in the price level. That is an empirical assertion that presumably can be tested, but the problem is that some statisticians find convincing correlations and others do not. So it becomes important to find the exact definition of money that yields the best correlations. That is where all those Ms came from.

The looser version of monetarism asserts a causal relationship between changes in the money supply and the subsequent changes in prices. That means that a rapid increase in the money supply will inevitably be followed by worsening inflation and so is to be avoided at all costs.

Monetarism, in either form, is a dangerous doctrine today because our long-term credit markets are progressively breaking down. People and financial institutions are becoming unwilling to hold long-term claims like bonds and conventional mortgages. Instead, they want the most liquid and shortest-term investments they can find. Those claims get counted in many definitions of the money supply, but the bonds and mortgages they are replacing don't.

We are rapidly approaching a situation in which soaring interest rates and market disruption will cause a shrinkage of total credit, because long-term claims are no longer salable. Yet the money supply will still be growing fast. When that happens, if the Fed focuses upon the money supply and continues to squeeze, we will have not merely a liquidity crisis but financial chaos.

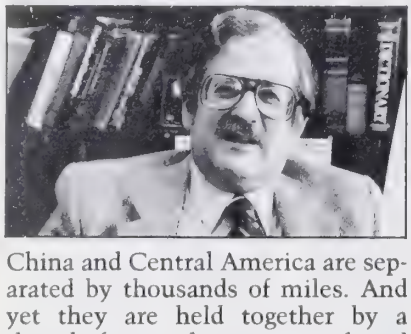
To avoid such a catastrophe, the only viable target for the Fed to aim at is whatever rate of growth of *total credit* turns out to be compatible with long-run price stability. ■

y Bladen is senior vice president-invest- ts for the Guardian Life Insurance Co. merica, and author of How to Cope the Developing Financial Crisis.

A very tight outlook for cotton could be shaping up worldwide. Yet cotton prices have been going into the tank. Why?

A COTTON TALE

By Stanley W. Angrist



China and Central America are separated by thousands of miles. And yet they are held together by a thread of mutual interest—a thread of cotton. That thread has become extremely important to the cotton farmers of the high plains and the southern part of the U.S. A recent report prepared by Edward Cousin of Merrill Lynch's commodities division outlines the dimensions of the world cotton situation.

On the one hand, the modernization of the industrial and cultural structure of China has increased demand for U.S. cotton. On the other hand, the destruction by leftist guerrillas of crops that produce foreign exchange in the Central American countries of El Salvador, Nicaragua and Guatemala will reduce the supply of exportable cotton this crop year, and perhaps for several years to come. The political changes taking place in China and Central America represent a major change in the world cotton business; these changes will have an effect on cotton prices for some time to come.

China is expanding its foreign trade activity. Exports and imports have both risen more than 600% in the past ten years to a figure in excess of $14 billion each. And cotton plays an important role in China's international trade. The Chinese textile industry is one of the world's largest, and China is one of the world leaders in production of cotton and cotton textiles. It is the most important world supplier of silk and cashmere wool. Yet China supplements its own cotton production with imports, which averaged 1 million bales per year until the 1979-80 crop year, when imports rose to 3.3 million bales. Most observers think China will import at least as much cotton this year as it did last year.

It is probably not very well recognized that China is the third-largest producer of cotton in the world behind the U.S.S.R. and the U.S. (India is a distant fourth.) And yet textiles are the fourth-largest import commodity in terms of U.S. dollars that China buys each year. And still she has trouble meeting her internal demands for cotton goods. Textile yarn and fabrics represent approximately 50% to 60% of total manufactured goods in China and cotton cloth is still rationed at about 4 to 6 square meters per person in order to maintain exports. Textile yarn and fabric has been making up at least 15% of China's exports for the la several years.

In 1980 China and the U.S. neg tiated two important trade agre ments—a bilateral textile agre ment and a bilateral grain agre ment. These agreements represe major milestones in improvi U.S.-China relations and should a sure significant purchases from th U.S. of raw cotton, wheat and co in the next few crop years.

Cotton is of extreme importanc to China. It earns her foreign e change and it helps to make th lives of her people better. It seem reasonable to conclude then th China is going to have to expan her purchases of raw cotton in th coming years. However, it shoul be kept in mind that while rel tions with the West have improve dramatically since 1972, China ha made unexpected policy reversa on several occasions in the rece past. While the probability of suc a reversal taking place with respe to cotton is unlikely, there is a ways a small, but finite probabili of such an occurrence.

The situation in Central Ameri has raised different kinds of qu tions about cotton supply and c mand. There is widespread politi unrest and/or guerrilla activity three Central American countr that export cotton in competiti with the U.S.: El Salvador, Nica gua and Guatemala, which ha been producing among them abou million bales a year. The U.S. D partment of Agriculture estima that, at a minimum, production th year will drop by 150,000 bales. E if guerrilla activity intensifies this region, production could dr even more dramatically. Indeed

The China syndrome

China needs more cotton not only to meet the needs of its own population, which has grown 10% in the past five years (to 1 billion), but also to manufacture exports to gain hard currency. The bulk of the added cotton must come from imports.

Crop year	Population (millions)	Production (millions of 480-pound bales)	Imports	Consumption
1975-76	913	10.7	0.8	10.7
1976-77	962	9.4	0.5	11.1
1977-78	983	9.4	1.4	11.8
1978-79	1,004	9.9	2.0	12.6
1979-80	1,020	10.1	3.3	13.5
1980-81E	1,036	11.0	3.1	14.1

E: Estimated.

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

writing it is hard to see how uction and exports can fall less 300,000 bales and perhaps by uch as 500,000 bales during this year.

the analyses of developments in na and Central America are cor- crop production losses in Cen- America, together with in- sed per capita consumption in na, could more than offset in- sed production in China and re- in a world carryover close to the st levels of the last 20 years.

rrent estimates of world pro- ion and consumption show ex- e sensitivity to events in Chi- nd Central America. If Chi- production remains at 11 ion bales, and consumption at million bales, then imports ld need to be only 3 million s. However, if China's per cap- consumption is increasing, as y analysts suspect, then cotton rts must rise. Additional up- l pressure on cotton prices d be generated by reduced ral American exports because olitical difficulties.

ese factors combine to give a tight outlook for cotton world- . And yet cotton prices in nt months have been going into ank. I believe that at this time worthwhile to try to become a d cotton bull. I have not even idered in my analysis what ef- another hot, dry summer would on cotton prices. If another summer were to occur one ld not have to be a *timid* bull.

ere are two ways I would at- t such a strategy. First, for e cautious traders I would try a December/short March bull d. I would try to buy December at least a 160-point discount to h. I would risk no more than points from my entry ($500 per d). And I would look for at least -point ($1,250 per spread) prof- he initial margin and commis- on this spread are $1,000 and , respectively.

e other alternative is to buy the mber contract outright. I d try to buy December under nts, risking no more than 150 s ($750) from my entry price. I d look for a minimum 600- profit ($3,000). The margin commission on this trade are 0 and $80, respectively. ■

Over the past 12 weeks, several small-computer companies have staged remarkable rallies. So remarkable, in fact, that one expert's getting worried.

What price growth?

The Streetwalker

By Newcomb Stillwell

TO HEAR THE ANALYSTS on Wall Street tell it, computers—particularly small computers—are the greatest things, maybe since the invention of the wheel, certainly since sliced bread. "The office of the future," they say. "The last great frontier of productivity." Or, shades of the one-decision-growth mentality: "There's more risk being out of these stocks than in them."

But leave Wall Street for a moment and travel to Greenwich, Conn. There, camped near IBM headquarters, analysts at the Gartner Group keep watch over the computer companies large and small. And the Gartner Group is worried. Says Thomas Crotty, vice president-research, "There's been a very rapid appreciation. You couple that with my nervousness about the market generally, and those companies are prime candidates for profit-taking. It makes me skittish."

When Crotty says rapid appreciation he means *rapid* appreciation. Of the 30 computer and technology stocks Gartner Group follows, 22 have advanced more than 10% in a recent 12-week period, 14 are up more than 20% and 7 more than 30%. Three stocks—Four-Phase, Prime Computer and Storage Technology—have advanced better than 50%. Four-Phase, in fact, has doubled in price. *(See story, p. 50.)*

Those three companies, of course, are in anomalous situations. Storage Tech is the beneficiary of IBM's difficulty delivering its new 3380 disk

The Printout

On Wall Street, most computer losers lately have been big mainframe makers—while most little guys have won big. Too far, too fast?

Company	Recent price	Recent P/E	12 weeks prior price	12 weeks prior P/E	% change in price
Four-Phase Systems	39	34	18¾	18	108%
Storage Technology	31	17	18¼	10	70
Prime Computer	44⅜	39	26⅝	25	67
Amdahl Corp	40½	39	25¾	32	57
Computervision Corp	85⅞	47	61⅛	34	40
Computer Sciences	23¼	13	16¾	9	39
Data General	62¾	14	47½	10	32
Electronic Data Systems	50	19	38	16	32
Gerber Scientific	23⅛	16	17⅝	12	31
Mohawk Data Sciences	24¾	15	18⅞	12	31
Sperry Corp	49¼	6	51¾	7	–5
Honeywell	93⅝	7	99⅞	8	–6
IBM	56⅝	9	61¼	10	–7
Burroughs	43⅜	32	48¼	24	–10
Dataproducts	29¾	17	33¾	19	–12
Centronics Data	12¾	—	15½	25	–18

drive; Four-Phase and Prime, both small-computer manufacturers, appear to be bouncing back from earlier problems. Still, the general appreciation is striking. Look at the Gartner Group's indexes, which track different industry segments. For the same 12-week period, the mainframe index is up only 9.8%, peripherals are up 19%, software and services a healthy 22.9%. Meanwhile, the small-systems index is up a staggering 36.4%. That's a 150% annual rate.

Numbers like that are enough to give anyone pause. Worse, those indexes have just recently become a little erratic. Add a big institutional presence in many of these stocks, which also have relatively small floats. Then consider that second-quarter performance reports are looming, while the general market is souring. A recipe for disaster? "It looks a little toppy," Crotty allows. "A 15% or 20% correction from here wouldn't surprise the hell out of me."

All this isn't to say that Crotty thinks there are fundamental problems with the companies. He sees no real bad news, and earnings and revenue growth are on target. Further, the market, he thinks, is appraising the relative growth prospects of different industry segments accurately.

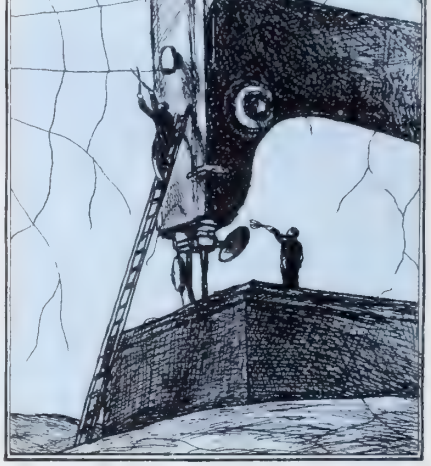
What worries Crotty though is pricing. "At the end of last year," he says, "everyone got worried about order levels and whether growth would be as fast as expected. The stocks fell out of favor. Then, after the first quarter came in, everyone decided that the party wasn't over." In short, in welcoming back the golden goose, Wall Street may have hugged it a little too hard. Says Crotty, "They just came back too far, too fast."

So how to make a buck in computers? Right now Crotty is interested in some mainframe companies that look cheap: IBM, which has almost completed transition to a new generation of hardware; NCR, which is big in point-of-sale, computerized cash registers, as well as in small and medium-size IBM compatible mainframes; and Control Data, which has become a leader in services and peripherals.

"We're recommending gradual accumulation, with the understanding that they're not going to be big performers right away," he says. Long term, too, he likes the small-systems companies, but not at today's prices. "The fundamentals are strong, a hell of an investment," Crotty concludes. "But frankly, earnings multiples in the high 30s and 40s are a little rich. If the market's going south, I'd hate to be buying." Sometimes, no matter how good the company, there can be more risk being in than out.

Singer's new song

An old dog is doing new tricks on Wall Street. The canine in question is $2.8 billion-a-year (sales) Singer Co., the perennial sewing machine disaster that last year netted a mere $38 million—roughly 40% of which was non-operating income from the sale of real estate. That of course is positively frisky compared to 1979. In that year the Stamford, Conn.-based company



took a $130 million writeoff to shut an antiquated factory in Scotland, scale back plants in New Jersey and Germany and reduce its network of stores.

In early 1980 Singer's stock fell as low as 6¼. Last June it was still wallowing near that price—roughly half of book value. But, starting in September, investors caught on that there is more to the company than its frayed U.S. and European sewing machine business. On volume that has recently amounted to more shares in a day than used to move in a month, it has become a star performer. Singer recently traded at 21, commanding a current earnings multiple of 10—a slight premium to the overall market.

Some of the reasons for that jump are obvious. "Unless you assumed they were going under, the stock had just gotten ridiculously cheap," says Mark Hassenberg at Donaldson, Lufkin & Jenrette. What's more, investors were impressed because last year Singer's big aerospace and marine systems division—the leading manufacturer of simulators for aircraft, including the one used to train space shuttle Columbia's astronauts—had operating profit $36 million, up 34%. It also finishe year with fat backlogs and won a military helicopter contract recen

Those results have encour Singer to embark on its first new ture in a decade—SimuFlite, w will provide ground school and fl simulation training to corporate lots. The company is betting an vestment of $35 million over years that it can gain returns those of a former customer, Fli Safety International, which, wit competition, has regularly posted erating margins in excess of 50%.

Another of Singer's strong point course, is its Third World sewing chine and consumer durables busin Last year operating income was million, which should increase annually through the early Eightie

"The market agreed this was undervalued situation," says Me Lynch's Charles Ryan, "and as e ings have held together over the three quarters, it gradually has g Singer what it deserved."

But analyst Ryan sees proble Singer's turnaround, he points ou still tied to getting the U.S. and E pean sewing business back to br even. The plan assumed a declin U.S. demand of about 10%. Inst U.S. sales were off 20% and lo swelled accordingly. This year U.S. has stabilized, but Europ worse than expected.

Singer is in a kind of race aga the calendar. The sooner the sev machine operations break even, sooner Singer can use $50 millio tax-loss carryforwards. Last year of its operating income came f countries where those credits c not be applied, places like L America, Africa and the Far E which explains the company's 62% tax rate. So, as soon as Si shows substantial profits in the or in Europe, its effective tax should drop dramatically.

DLJ's Hassenberg estimates sewing losses will be down to million in 1983. His earnings pr tion for that year: $6.50 to $ "While such a jump from $2 this looks pretty dramatic," he expl "in fact, it depends upon an only tial turnaround."

But so much hinges on elimin those sewing losses that Singer, its token 0.5% yield, isn't wo everyone. "The risk here is that disappointment came, the s would sell off more sharply something in which investors h tradition of confidence," says Ry Merrill Lynch.—**Thomas Jaffe**

idend cuts rarely please investors, but sometimes make it possible for an ng company to turn around.

Rough cuts: educed dividends

By Steve Kichen and Paul Bornstein

's THE WORST SHOCK a share- can get? Short of a bankruptcy on, it's surely news of a dividend That heralds an immediate de- in investment income. What's a payout reduction is an unvarnished message that a company is in trouble—and often an early warning signal that even tougher times are still ahead.

This is an unpleasant situation, of course, only if you're already an investor. But suppose you're shopping the market for bargains. A company's shares occasionally nosedive when the dividend falls, and if you're of the buy-on-bad-news persuasion, that could be a very positive signal. Cutting the payout may mean that take-charge management recognizes its problems and is willing to take unpopular steps to solve them.

Dividend cuts then can be either buy signals or sell signals. In a rough—and admittedly unscientific—way FORBES set out to find out which move makes better sense. From a universe of almost 2,000 major companies, we decided to see how those that slashed payouts fared on Wall Street. To keep the study recent and yet to allow time for a possible rebound, we surveyed the years 1976 to 1979. Although many companies went through multiple dividend cuts in this period, we based our data on the first of such moves. We did not examine companies with only sporadic dividend records.

To compare change in stock price from the time of dividend cuts to the present we took the stock price as of

Statistical Spotlight

Through the past, darkly

en a company cuts its dividend, that's a clear indica- n of trouble. But what happens next? To answer that estion, FORBES developed this list of companies that uced or eliminated their quarterly payments to ckholders between 1976 and 1979. Below, adjusted stock dividends and stock splits, are the perfor- nce results of these 69 companies, ranked according to percentage price changes since their payout reductions. Our results: 5 out of every 7 stocks are now selling at higher prices, 17 of the 69 issues more than doubled. And 22 averaged yearly gains of 25% or more. Still, investing in dividend cutters has plenty of risks—as can be seen from the losses and low returns posted by their poorer performers listed here.

pany	Information on dividend cut: year	change in dividend	EPS for year	stock price	Recent stock price	% change in stock price	Earnings per share: latest fiscal year	latest 12 months	Indicated: dividend	yield
ida Steel	'76	$0.09–$0.08	$0.48	5	35⅞	618%	$3.15	$3.57	$0.70	2.0%
klin Mint[1]	'77	0.19– 0.08	0.85	7½	37[2]	393	NA	NA	NA	NA
al-Randolph	'76	0.28– 0.16	0.88	8⅝	39¾	361	0.96	0.99	0.64	1.6
mont Mining	'77	0.40– 0.20	0.12	16¼	66¾	311	7.64	5.61	1.50	2.2
ohnson	'77	0.20– 0.00	d 7.49	7¼	28¾	297	0.69	0.41	—	—
iire	'76	0.08– 0.00	0.23	5¼	18⅞	260	3.40[3]	3.53[4]	0.90	4.8
naco	'76	0.19– 0.00	d 0.09	6⅝	23⅞	260	3.87	3.99	1.00	4.2
dleman	'76	0.10– 0.05	0.53	5½	16¼	195	1.94	1.59	1.00	6.2
ka	'79	0.11– 0.00	2.10	10	26¼	163	2.37[5]	3.17	0.10	0.4
ps Dodge	'77	0.55– 0.15	0.64	18⅜	47¼	157	4.20	3.23	1.60	3.4
ster[6]	'78	0.15– 0.10	0.19	6⅜	16[6]	151	NA	NA	NA	NA
higan Sugar	'77	0.20– 0.08	0.41	6¾	16¼	141	5.59	8.55	1.00	6.2
Burns	'78	0.10– 0.00	d 4.18	2⅝	6⅛	133	0.25	0.54	—	—
f Res & Chem Corp	'78	0.25– 0.06	1.41	10½	24½	133	2.24	1.30	0.50	2.0
owenstein	'77	0.15– 0.08	d 2.16	11	24⅛	119	1.47	2.25	0.60	2.5
rwin-Williams	'78	0.28– 0.00	0.38	10	21¾	118	2.44	2.53	0.80	3.7
es Gas & Oil	'78	0.08– 0.00	0.11	8½	17⅝	107	2.47	2.51	—	—
ith Radio	'79	0.25– 0.15	1.01	9⅝	18⅝	94	1.40	1.36	0.60	3.2
zens & Southern (Ga)	'77	0.13– 0.06	d 0.27	4⅝	8½	84	1.23	1.34	0.40	4.7
necott[7]	'76	0.25– 0.15	0.27	32¼	58¾	82	2.79[8]	0.68[9]	1.40	2.4

uired by Warner Communications: 1 share of Franklin Mint exchanged for 0.764 share of Warner or cash and warrants. [2]Equivalent value of Warner nunications stock. [3]Excludes $2.81 from discontinued operations. [4]Excludes $2.86 from discontinued operations. [5]Excludes $9.67 from discontinued ations. [6]Acquired by Universal Leaf Tobacco: 1 share of Royster exchanged for $16 cash or cash and notes. [7]Standard Oil (Ohio) made acquisition offer 52 per share. [8]Excludes $3 gain from sale of property. [9]Excludes $1.42 gain from transfer of interest. [10]Excludes $17.09 gain from sale of proprietary business. [11]Company in Chapter 11. [12]1979 results. [13]Company is in Chapter 11; shareholders approved plan to reorganize into Pantry Pride holding pany. NA: Not applicable or not available. d: deficit.

the date the cut was announced, the date that a reduced dividend was declared or the date that a dividend normally would have been declared. All data was adjusted for subsequent stock dividends and splits.

Our conclusion—limited by the data obtained in our quick investigation—is that dividend cuts seem more

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likely to portend good times than bad for stockholders. Of course, there were some spectacular basket cases, such as First Pennsylvania, which decreased 60%, and Combustion Equipment Associates which did even worse. But 22 of the companies a aged gains of at least 25% a year. some of the winners, like Canal-dolph, E.F. Johnson, Phelps Do Tonka and Warnaco, were impres indeed.

Back in 1976, for example, a sighted investor who put $1,000 Florida Steel—when it slashed

Through the past, darkly

Company	Information on dividend cut: year	change in dividend	EPS for year	stock price	Recent stock price	% change in stock price	Earnings per share: latest fiscal year	latest 12 months	Indicated: dividend	yiel
Tesoro Petroleum	'77	$0.25–$0.00	d $5.52	9¾	17¾	82%	$7.15	$4.85	$0.30	1.7
BanCal Tri-State	'76	0.34– 0.15	0.66	15¼	27⅝	81	3.64	3.62	1.20	4.3
Alexander & Baldwin	'76	0.40– 0.30	1.86	16⅞	30⅜	80	7.89	7.08	1.80	5.9
Southeast Banking	'76	0.20– 0.10	1.09	11⅜	20¼	78	3.23	3.28	1.00	4.9
Culbro	'79	0.25– 0.15	d 6.62	10½	18¼	74	1.75	1.40[10]	—	—
Beker Industries	'77	0.07– 0.00	d 2.65	8⅛	14	72	2.49	1.85	—	—
Kaiser Steel	'79	0.38– 0.00	6.79	27½	45¾	66	27.16	19.68	—	—
Proler Intl	'78	0.35– 0.00	0.92	20¾	33⅝	62	4.40	4.40	1.40	4.2
House of Fabrics	'79	0.09– 0.05	0.46	5⅝	9	60	0.70	0.70	0.20	2.2
Ceco	'77	0.29– 0.18	d 0.97	14	21½	54	4.57	4.30	0.90	4.2
Outboard Marine	'79	0.35– 0.18	2.00	12¼	18¾	53	0.28	2.09	0.70	3.7
Uniroyal	'78	0.13– 0.00	0.04	5¼	8	52	d 0.30	d 0.30	—	—
Wayne-Gossard	'79	0.12– 0.06	d 0.72	6	8⅞	48	0.07	0.64	0.20	2.3
Cont Copper & Steel Ind	'76	0.10– 0.00	d 0.49	4½	6½	44	1.26	1.92	—	—
Holly Sugar	'76	0.85– 0.60	13.65	30¾	41⅞	36	3.63	8.30	1.00	2.4
Fisher Foods	'79	0.15– 0.10	d 1.14	8⅝	11½	33	1.05	1.19	0.50	4.3
Fidelcor	'78	0.55– 0.25	d 2.70	14	18⅜	31	2.34	2.70	0.64	3.5
Triangle Industries	'76	0.21– 0.00	d 2.88	9½	12	26	1.85	1.73	0.40	3.3
Coachmen Industries	'79	0.15– 0.00	d 2.81	6¼	7¾	24	d 2.09	d 1.31	—	—
Akzona	'77	0.30– 0.20	0.60	11⅜	13¼	16	0.40	0.19	0.80	6.0
Firestone Tire & Rubber	'79	0.28– 0.15	1.35	9⅞	11⅜	15	d 2.11	d 0.64	0.60	5.3
Amalgamated Sugar	'77	0.75– 0.50	d 1.95	30	34¼	14	8.78	11.06	4.00	11.7
Pabst Brewing	'79	0.30– 0.10	1.12	14¾	16¾	14	1.55	1.14	0.40	2.4
US Steel	'78	0.55– 0.40	2.85	28⅝	32⅜	13	5.25	7.03	2.00	6.2
Keystone Consol Inds	'77	0.25– 0.00	d 1.46	14⅝	16¼	11	d 1.84	d 4.36	—	—
Bethlehem Steel	'77	0.50– 0.25	d 10.27	23⅞	26⅜	10	2.77	2.11	1.60	6.1
Orange-Co	'79	0.05– 0.00	1.17	7	7¼	4	d 1.19	0.67	0.20	2.8
GF Business Equip	'76	0.08– 0.00	d 0.04	5	5⅛	3	0.80	0.83	—	—
Reece Corp	'77	0.19– 0.15	1.10	9¾	9⅞	1	0.86	0.68	0.60	6.1
Joseph Schlitz Brewing	'78	0.17– 0.10	0.41	10⅞	10½	–3	0.93	0.76	—	—
Hayes-Albion	'79	0.32– 0.10	0.06	10⅜	9⅞	–5	d 0.77	d 1.22	—	—
Rival Manufacturing	'77	0.40– 0.20	0.89	10¾	10⅛	–6	1.17	1.19	0.80	7.9
Kellwood	'79	0.28– 0.20	1.28	11¼	10⅜	–8	0.06	1.15	0.40	3.9
Penn-Dixie[11]	'77	0.06– 0.00	d 2.85	4¾	4	–16	d 2.65[12]	d 3.46	—	—
Food Fair[13]	'78	0.05– 0.00	d 7.42	4¾	3⅞	–18	1.86	2.38	—	—
Craig	'79	0.13– 0.06	0.59	8	6⅜	–20	d 0.13	d 0.69	—	—
Fotomat	'79	0.13– 0.00	d 0.57	9	6¾	–25	0.08	0.08	—	—
Mesta Machine	'78	0.25– 0.15	0.56	20⅞	15	–28	d 12.48	d 12.48	—	—
Munford	'78	0.10– 0.00	d 0.72	10½	7¼	–31	0.26	0.43	—	—
Victoria Station	'79	0.03– 0.00	d 0.42	13	7¾	–40	d 0.42	d 2.17	—	—
Giant Portland	'76	0.20– 0.15	0.48	10⅞	6⅛	–44	d 0.49	d 0.61	—	—
McLouth Steel	'77	0.30– 0.00	d 2.86	13¾	7¾	–44	d 10.22	d 10.50	—	—
Hesston	'76	0.20– 0.00	d 3.50	18⅞	10¼	–46	d 0.19	d 0.58	0.20	2.0
United Merch & Mfrs	'76	0.20– 0.10	d 3.36	11⅛	5⅝	–49	d 3.39	d 4.72	—	—
Sambo's	'79	0.15– 0.00	d 6.06	9⅝	4⅝	–52.	d 1.05	d 1.05	—	—
General Public Util	'79	0.45– 0.25	1.56	10½	4½	–57	0.34	0.19	—	—
First Pennsylvania	'79	0.33– 0.11	1.06	11	4⅜	–60	d 10.47	d 9.88	—	—
Combustion Equip Assoc[11]	'79	0.07– 0.00	d 0.66	11¼	1⅛	–90	d 2.55	d 4.15	—	—
Itel[11]	'79	0.20– 0.00	d 39.13	14⅛	¾	–95	d 39.13[12]	NA	—	—

[1]Acquired by Warner Communications: 1 share of Franklin Mint exchanged for 0.764 share of Warner or cash and warrants. [2]Equivalent value of War Communications stock. [3]Excludes $2.81 from discontinued operations. [4]Excludes $2.86 from discontinued operations. [5]Excludes $9.67 from discontin operations. [6]Acquired by Universal Leaf Tobacco: 1 share of Royster exchanged for $16 cash or cash and notes. [7]Standard Oil (Ohio) made acquisition o @ $62 per share. [8]Excludes $3 gain from sale of property. [9]Excludes $1.42 gain from transfer of interest. [10]Excludes $17.09 gain from sale of proprie drug business. [11]Company in Chapter 11. [12]1979 results. [13]Company is in Chapter 11; shareholders approved plan to reorganize into Pantry Pride hold company. NA: Not applicable or not available. d: deficit.

lend it was paying at the time 37½ cents to 30 cents—would y be sitting with stock worth al- $7,200.

Ve made what we think is a inal dividend cut to tell stock- ers that things were going to be for a year or two," says Edward lom, Florida Steel's chairman. like to pay out between 30% 35% of our earnings, so we try djust the dividends up or down eeping with long-range business ls." Florida Steel's dividend poli- n't a reaction to crisis or calam- ut rather an adjustment based s perception of future business itions. If Wall Street treats s differently, let the seller be- "Our theory on the dividend is it's an indication of what we is going to happen in the fu- " Flom concludes.

quire, however, cut its dividend 976 for more conventional rea- —massive losses at its flagship zine. But one year later manage- bit the bullet and sold out. By ng up its other product lines and ng aggressive acquisitions, Es- has turned around: Its stock has than tripled since 1976.

e dividend? It was restored four years ago—but Bernard Krauss, Esquire's president, isn't sure that dividend policy makes that much difference. "If you can ever establish some ratio between stock prices and payouts we'd be delighted to have it," he explains. "It's my general view that it doesn't make a lot of difference to stockholders anymore. With tax rates and inflation, people are looking for capital appreciation more than dividends."

Immediate market reaction to a dividend cut, of course, is not consistent. By the time Ford got around to reducing its payout from $1.00 to 30 cents a quarter in 1980, the market had already discounted the stock. Who wouldn't have been suspicious of a 15% yield—especially with Ford's losses. But lots of investors got a high-voltage shock when Con Ed cut its dividends in 1974. Not only did Con Ed's stock short circuit to a low of 6, but many other utilities took a beating as investors became concerned about industry revenues not keeping up with costs.

"Generally, at the point of a dividend cut, most of the damage is already done," says Michael Kailing of A.M. Kailing & Associates, a Chicago-based investment counseling firm. Still, he feels that dividend cuts tend to scare away institutions while smaller investors are more likely to hold their shares. That's why the immediate reaction is often a quick drop of a stock's price. "But as a company goes down the road and tightens its belt, things can become very positive," Kailing explains.

Other experts view dividend cuts more skeptically. David Leibowitz, vice president of American Securities, feels that it is a mistake for established companies with a tradition of high yield and high payout to cut dividends. "Shareholders own such companies because of income, and a cut really shakes their confidence. A dividend cut by an established corporation makes sense," says Leibowitz, "only if the company is literally changing its spots and has a plan in mind to embark on a new business. A dividend cut could also be justified for an emerging high-technology high-growth company paying only a nominal dividend in the first place. Such a company might be better off not paying a dividend—especially with the high cost of money."

Patient investors, of course, have already reaped handsome rewards from the best performers on our dividend cut list. But what about those stock prices that are lower now than when the dividend cuts took place? You would have lost only 95% of your money with Itel: Its present price is a reflection of what the market thinks about its chance for recovery. On the other hand, it looks as if Food Fair will successfully emerge from Chapter 11. In fact, it showed a profit in 1980—no small accomplishment in the grocery store industry. But Food Fair shares are still down by 18% since it cut its dividend in 1978.

Whether or not dividends are as important as they used to be, dividend policy does affect the market. In general, the risks of investing in corporations that have cut dividends is high. And it often takes patience, patience that can go unrewarded. If you have to wait five years to get back a 50% gain, you have hardly beaten 12% annual inflation.

For the brave who want a look at a current crop of dividend cutters, however, the table on this page presents a sampling. The pressures of high interest rates account for the large number of thrift institutions and if inflation declines they may be some of the most immediate beneficiaries. Otherwise, the ranks surely include the likes of Esquire and Florida Steel—as well as Food Fair and Itel. ■

Double or nothing

ere is a list of 22 companies that ve cut their dividends in 1981. early one-third of these firms are rift institutions, hard hit by the essures of high interest rates d restrictive regulations. Still, if these stocks show the same resilience as those listed in the table on page 189, share prices in 5 of the companies will double over the next four years. Several others, unfortunately, may go bankrupt.

npany	Change in dividend	Recent price	EPS latest fiscal year	Price/ earnings ratio
mo Savings Association	$0.13–$0.10	10½	d $2.20	d
ha Portland Industries	0.18– 0.00	13¾	d 6.55	d
bassador Group	0.10– 0.05	15¾	1.85	8.5
l & Son	0.25– 0.10	14½	d 0.89	d
cayne Federal S&L	0.20– 0.00	16⅞	0.73	23.1
adview Financial	0.11– 0.00	5⅛	d 0.73	d
itronics Data Computer	0.05– 0.00	12	3.01	4.0
corator Industries	0.06– 0.00	2	0.09	22.2
raltar Financial of Calif	0.15– 0.00	6¾	d 0.38	d
ernational Harvester	0.30– 0.00	15¾	d 12.91	d
ernational Proteins	0.05– 0.00	6¼	d 0.20	d
lland Bancorp	0.33– 0.00	12	1.46	8.2
thern Calif S&L Assn	0.18– 0.00	10½	0.71	14.8
elika Manufacturing	0.21– 0.05	11⅜	d 1.74	d
E	0.15– 0.10	9	0.36	25.0
in	0.18– 0.09	13	4.35	3.0
conix	0.05– 0.00[1]	17¾	1.10	16.1
nberland Industries	0.05– 0.00	4	d 0.94	d
o	0.11– 0.00	10⅛	0.90	11.3
nsohio Financial	0.10– 0.00	8⅛	0.75	10.8
in Fair	0.20– 0.00	7¼	d 2.64	d
E Webb	0.05– 0.00	11⅜	0.42	27.1

niannual dividend. d: deficit

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Flashbacks

Edited By Dero A. Saunders

The more things change. . . ."
ms from past issues of FORBES

y years ago in FORBES

BES has been bombarded with s from soft coal people who lain that our arraignment of operators in our last issue did nake clear that it applied only to nthracite industry. In fairness, vant to state that it was the acite people we had in mind, as ur information tends to show exorbitant prices are not now ale for bituminous coal. Condi- in hard coal continue as bad as The outlook, from every point of is very disquieting."

ibute ought to be paid to the rank le of American labor as a whole s sensible conduct, at least thus uring the trying period which all s have been passing through. Not nas there been a praiseworthy ab- of big strikes, but the conduct of veral millions who have been de- d of work has been almost beyond ism. But because the 4,000,000 vorkers have suffered in silence is ason why every responsible man irs should not strain every nerve celerate the resumption of more al activity."

The Old Manager Speaks
By Berton Braley

andled a pick and a shovel,
sat at a bench in my time.
one heavy work in the heat and
ne murk,
known all the sweat and
ne grime;
o, when some frosty-eyed expert
ks "Labor" as if it was coal,
ommodity"—well, I just choke
or a spell
ore I regain my control.

e take all this dope economic
it plats human toil in its charts,
you that "Labor's" your friends
nd your neighbors,
Folks that have bodies and
earts,
hers and brothers and husbands
h mothers and sweethearts and
ives,
love and who hate and who
ream and who wait;
real people living their lives.

labor unions are denounced in port of the joint legislative committee investigating seditious activities, as revolutionary in character and organized for the ultimate purpose of seizing industries and overthrowing the Government. They are: Industrial Workers of the World, Workers' International Industrial Union, International Federation of Hotel Workers, Journeymen Bakers and Confectioners' Union, Brotherhood of Metal Workers, Amalgamated Clothing Workers of America, Amalgamated Textile Workers, International Ladies Garment Workers Union and Fur Workers' Union."

It is hard to believe that the last three items appeared in the same FORBES issue accidentally. Editor B.C. Forbes, a proud up-from-the-ranks man, was probably using the first two of the three items—the lead story saluting labor's patience in adversity plus the poem—as advance rebuttal to the third. Witch-hunts are unfortunately an old story in America, going back at least to the Massachusetts Bay Colony. But the item just quoted—which carefully omitted any note of approval—was perhaps the first advent of the political witch-hunting that flowered so monstrously in the days of Senator McCarthy.

That last item also illustrated the inherent risks in lists. A few of the organizations listed—like the Industrial Workers of the World, the old "Wobblies"—did indeed advocate changing the social order, though that is no crime. But the International Ladies Garment Workers Union and the Amalgamated Clothing Workers? Sixty years later the two face one another across New York's old Union Square, the ILGWU as a conservative union now occupying the old headquarters of Tammany Hall, the ACW through the expanding facade of its $1 billion-plus Amalgamated Bank.

Fifty years ago

"**What has happened to the** public utility industry? Electric power production for the entire United States showed practically no change in 1930 from 1929. Thus far in 1931 output is a good deal less than 5% below last year's and domestic consumption of electricity has actually increased nearly 10%. Earnings of power companies and general utilities held up better in 1930 than practically any other field. The long industrial depression is beginning to make itself felt. . . . The present year will probably show general declines in profit from 1930, but they will be practically negligible in comparison with the declines in earnings of other classifications."

New Oklahoma Gas & Electric plant, 1930

"**The value of domestic exports** from the United States in April was $209,876,000, according to the final, exact figures of the Department of Commerce. Not since November, 1914, has the monthly value been so low. It was $21,000,000 less than for March, 1931. The figure for April, 1930, was $326,536,000, or $116,000,000 more than in the corresponding month of the present year. Taking the first four months of the calendar year together, one finds a falling off in export values of $529,424,000, or approximately 37%, from 1930 to 1931."

Twenty-five years ago

"***Marty*, the famous** Hecht-Lancaster/United Artists film about the romance of a Bronx butcher, provides a dollars-and-cents object lesson for hard-pressed moviemakers, who feel multi-million-dollar extravaganzas are the only bait to lure customers from their TV sets. Made [for] only $350,000, *Marty* grossed nearly $2 million before it won four Academy Awards."

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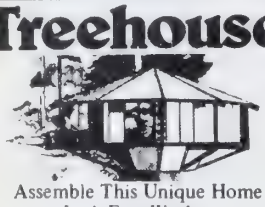

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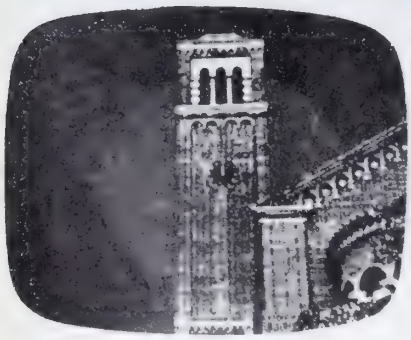

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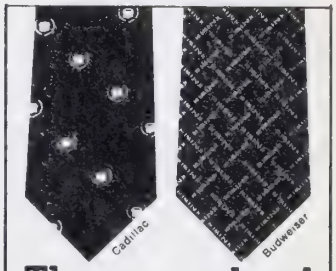

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The university brings out all abilities including incapability.
ANTON CHEKHOV

Nature gave men two ends—one to sit on and one to think with. Ever since then man's success or failure has been dependent on the one he used most.
GEORGE R. KILPATRICK

At a certain age some people's minds close up; they live on their intellectual fat.
WILLIAM LYON PHELPS

We never stop investigating. We are never satisfied that we know enough to get by. Every question we answer leads on to another question. This has become the greatest survival trick of our species.
DESMOND MORRIS

A Text . . .

So then neither is he that planteth any thing, neither he that watereth; but God that giveth the increase.
I CORINTHIANS 3:7

Sent in by Robert W. Deady, Oswego, N.Y. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

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PETER DRUCKER

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B.C. FORBES

It's amazing what ordinary people can do if they set out without preconceived notions.
CHARLES F. KETTERING

A little learning is not a dangerous thing to one who does not mistake it for a great deal.
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S.I. HAYAKAWA

Genius means little more than the faculty of perceiving in an unhabitual way.
WILLIAM JAMES

An idea is a feat of association.
ROBERT FROST

It requires a very unusual mind to make an analysis of the obvious.
ALFRED NORTH WHITEHEAD

I find that a great deal of the information I have was acquired by looking up something and finding something else on the way.
FRANKLIN P. ADAMS

Many ideas grow better when transplanted into another mind than in the one where they sprang up.
OLIVER WENDELL HOLMES JR.

As specialized, professional training, higher education in the U.S. today is often magnificent. . . . But the educated man, the man capable of not providing specialized answers but of asking the great and liberating questions, by which humanity makes its way through time, is not more frequently encountered than he was 200 years ago.
ARCHIBALD MACLEISH

All that I know, I learned after I was 30.
GEORGES CLEMENCEAU

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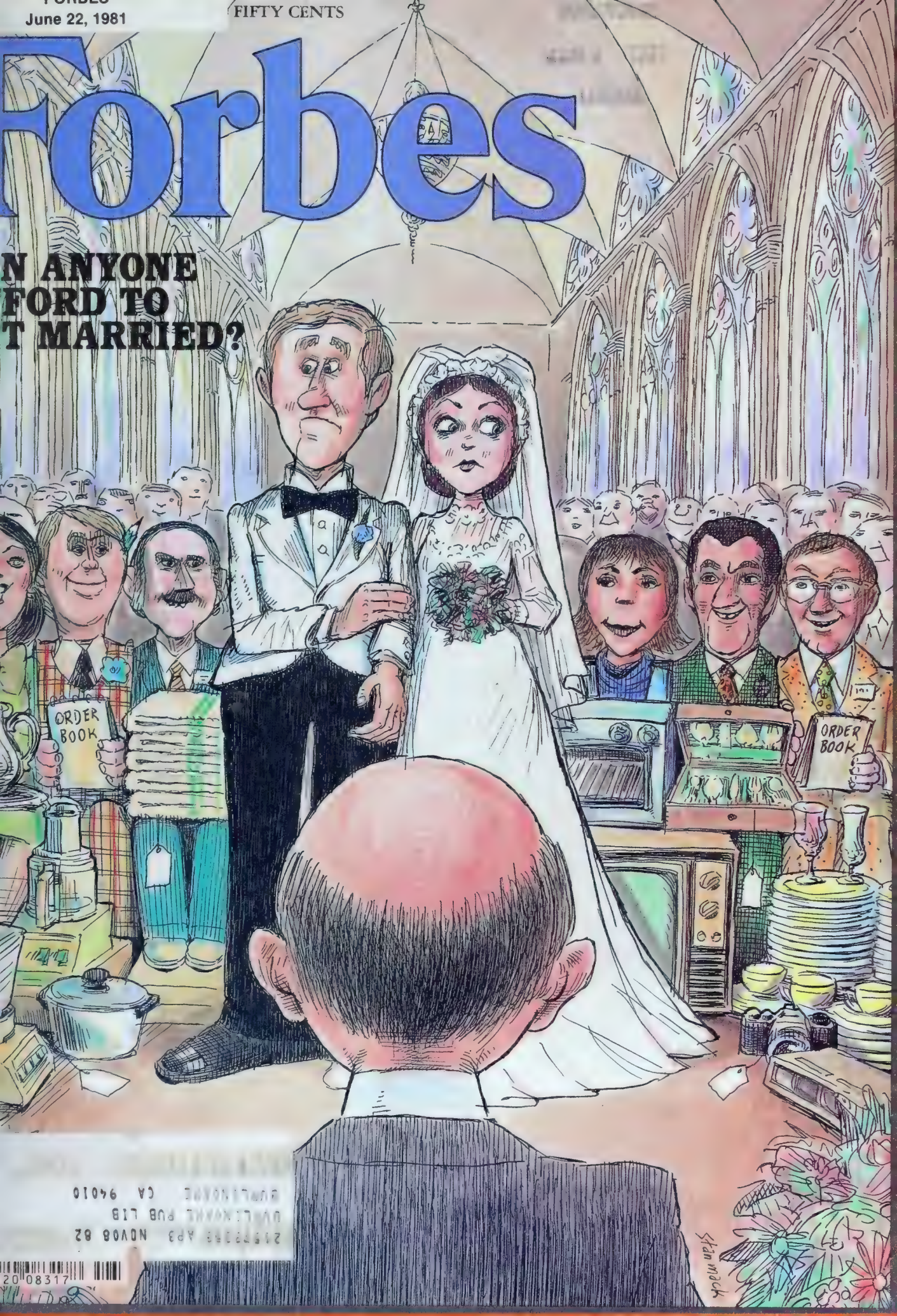

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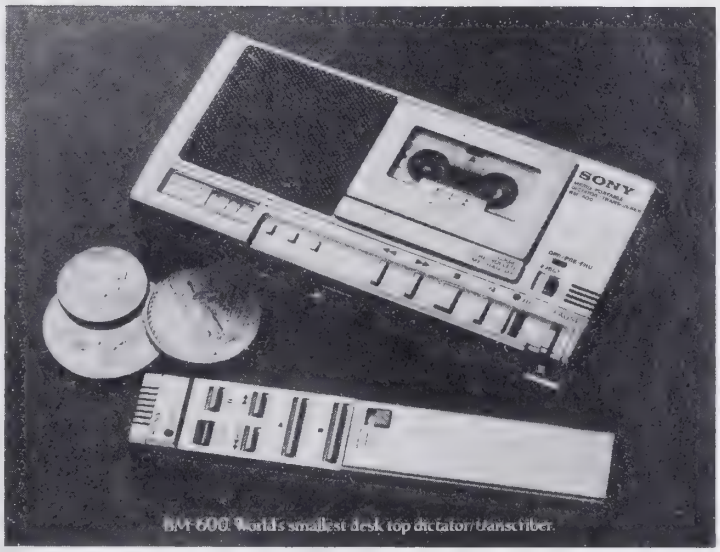

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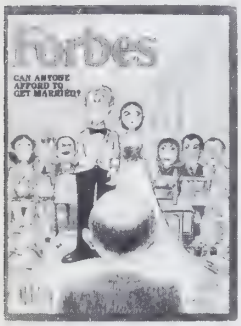

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Side Lines

Great minds

Executive Editor James Cook has spent months gathering material fo a major article on Iowa Beef Processors. Cook concluded that Iow Beef was one hell of a company and was ripe for acquisition. Occi dental Petroleum's Armand Hammer came to the same conclusion While Cook was finishing his article, Hammer was inking a deal t buy Iowa Beef. Hence the timely story that begins on page 33.

The sages' page

Jo Spencer

How do you put together *Thoughts on the Business of Life*? Contributing Editor Clothield (Jo) Spencer turned the question over in her mind and then replied in her characteristically self-mocking way: "You begin with a 52-year-old woman with a checkered career, who brings to the job knowledge, understanding, tolerance, insight and a conservative philosophy." *Thoughts*, that gracious and sagacious collection which brings up the end of every FORBES issue, has been under Jo Spencer's guidance for more than 15 years, and it reflects her humanistic, slightly wry appreciation of the human condition. Perhaps that is what makes it so popular. Chicago-born Radcliffe-educated, she has studied biology and law, done social work worked for the U.S. Air Force in Germany and labored 20 years a FORBES in various capacities.

"My technique?"—we have just asked her another question—" simply try to combine a potpourri of elements into something coherent, with a logical flow but not rigidly logical, and sometimes with an opposite view thrown in to remind readers that truth is seldom absolute." We tell Jo how popular her page is, and she parries the praise. "Say how much I'm going to miss William Feather," she says alluding to the Cleveland publisher and folk philosopher she frequently quoted. Feather died this January, at 91. But don't worry. Spencer isn't about to run out of sages. See page 168 for her latest collection.

So sorry!

If the Japanese press and opposition politicians are sincerely concerned about keeping nuclear weapons away from Japan, they might have a word with the Soviet Union, whose naval ships may regularly sail through the narrow straits that separate the two main Japanese islands, Korea and the U.S.S.R. Are the Russian ships armed with popguns? See Trends, page 8.

Gilded lemons

Here we are again with the familiar propaganda line: *Little stocks are the only ones worth investing in.* Sound familiar? Back in 1969 there was an even hotter bull market in new and small stocks. Jim Flanigan, now an assistant managing editor, and Howard Rudnitsky, now a senior editor, teamed on a cover story: "Golden eggs? Or lemons?" In it we tactfully suggested that people were being grossly overcharged for the privilege of "getting in on the ground floor" and that a lot of these "future IBMs" weren't long for this world. Were we right? Were we ever! Contributing Editor Richard Phalon and Assistant Editor Steve Kichen have investigated; their findings begin on page 161.

James W. Michaels
Editor

What makes this my favorite hotel when I'm overseas?

Otto, for one reason. Knowing he cares about keeping me in shape and making me feel great when I'm away from home means a lot. And when I see the *Teleplan* sign, I also know this hotel cares enough about me as a guest to make sure that I can make an international call at a reasonable charge.

That means no unreasonable surcharge fee. And that's pretty important. Because many hotels without *Teleplan* often charge $50 or more for a $20 call. That's why the Bell System, working together with leading hotels, initiated *Teleplan*.

Who has *Teleplan*? The hotels and countries listed on the right.

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TRUSTHOUSE FORTE
United Kingdom

TELEPLAN COUNTRIES:
IRELAND, ISRAEL, PORTUGAL

Bell System

Teleplan

The fair-cost way to call home

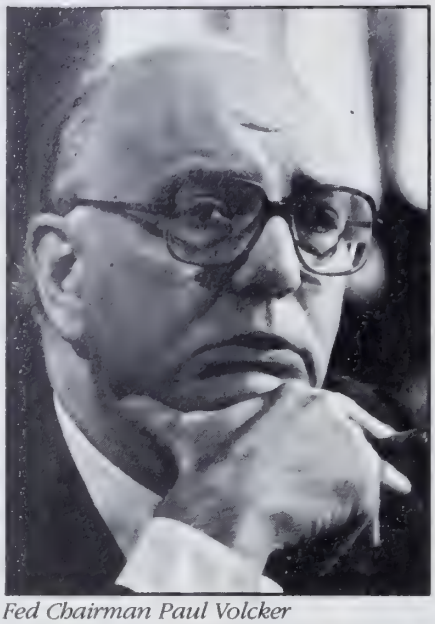
Edited By John A. Conway

Tradeoff in taxes

A new tax gimmick concocted by the Reagan Administration would let companies buy and sell their federal tax credits. The idea is to allow a strapped company, with no profits to apply against its tax credits, to sell them to a prosperous company for cash. A total of $2.2 billion in these credits went unused last year, $600 million in steel alone, and the Treasury says $13 billion worth have piled up in the past three years, 85% of it in six ailing industries. Treasury Under Secretary Norman Ture told a group of steel-state congressmen that the Administration is "looking quite carefully" at the proposal. In a sense it is a rewrite of an idea Jimmy Carter's taxmen proposed last year. The Democrats wanted to refund some of the unused credits of floundering companies directly out of Treasury funds. Ture says the Administration considers this a negative income tax and doesn't like it. Democratic Representative Donald Bailey of Pennsylvania (a member of the tax-writing Ways & Means Committee) retorted that selling credits would benefit prosperous firms as much as troubled ones. "I think it's a silly subterfuge," he says, "but I'm not going to fight it."

The fate of the Fed

How real is the conflict between the White House and Paul Volcker, chairman of the Federal Reserve Board? Publicly, the emphasis is on cordiality, with the President starting what are billed as regular face-to-face meetings with the Fed chairman. Privately, Reagan staff members (and according to some reports, the President himself) are deeply disturbed by what they consider the central bank's failure to get a handle on the money supply and interest rates. One line of speculation is that the White House will make its move by naming a new Fed vice-chairman when the term of the present number two man, Frederick Schultz, runs out next January, thus positioning its own man to take over when Volcker's chairmanship expires in 1983. Potential candidates include conservative economist Milton Friedman; Beryl Sprinkel, the Treasury's monetary expert; and Jerry Jordan, a Reagan economic adviser and former chief economist at the Pittsburgh National Bank. Friedman, who is rated the President's top outside economic counselor, has a more draconic solution—abolishing the Federal Reserve altogether. "Money is too important to be left to the central bankers," he says, arguing that the U.S. would have been better off if the Fed had never been established in 1914.



Fed Chairman Paul Volcker
A wary peace with the White House.

The real thing

The word from Peking is that the new Coca-Cola plant there, China's first, is having production troubles. Earlier this spring, a queue of executives led by Coke's chairman, Roberto Goizueta, trekked to China to open the plant with speeches, toasts with Coke and music by Beethoven and Aretha Franklin. Designed to supply tourists (Peking hasn't decided whether to let the product be sold to the 1 billion Chinese themselves), the installation was fitted out with $2 million worth of special equipment to purify the local water and deodorize the Chinese carbon dioxide used in processing. The problem appears to be that taming Peking's water is proving harder than expected. Atlanta is keeping up a brave front. "As far as we know here," Coke headquarters said, "everything is okay in Peking."

Nukes in Japan

The latest outbursts about U.S. nuclear forces and Japan—the collision with a nuclear submarine that sank a Japanese merchant ship, the revelation by a former U.S. ambassador of tacit approval for nuclear-armed U.S. warships in Japanese ports—have underscored the double standard applied to similar Russian incidents. Last summer, for example, the Soviet navy towed a disabled nuclear sub through Japanese waters to Vladivostok. Soviet ships, presumably some with nuclear weapons, pass through international waters—the Sea of Japan and its connecting straits. Japan claims a 3-mile limit and Russian ships can ply those waters so long as they are in "innocent passage, not prejudicial to the peace and order or security of the coastal state," says a convention signed by Japan and the U.S.S.R. in 1958. Japan concedes no Soviet incursions. Last summer's disabled submarine? Says one Japanese official: "Oh, yes, only one violation that we are aware of." The same official says that perhaps one Soviet ship a day passes through the narrow waters separating Korea, Japan and Russia, without any improprieties.

The freshman bench

Freshmen would play neither football nor basketball under a new proposal by the American Council on Education that is under study by the National Collegiate Athletic Association and other campus sports groups. (The Council's board will decide next month whether to make the idea its official policy.) If accepted, the rule would bar colleges from fielding freshman football and basketball teams, although first-year students would be permitted to compete in other sports, up to ten hours a week. Freshmen would also be barred from varsity football or basketball teams, a rule that would have kept first-year stars like Herschel Walker, the University of Georgia's all-America running back, on the sidelines last year. The rule's purpose, the Council on Education says, is to give student athletes time to establish an academic base and to allow coaches to act more like the teachers they are supposed to be instead of high-powered talent recruiters.

Here's how

America's biggest drinker is not Jimmy Carter's mythical businessman with the three-martini lunch but a Southern gentleman, usually over 60 and making more than $25,000 a year, according to a study by National Family Opinion, Inc. The Toledo, Ohio-based survey firm says that this Mason-Dixon tippler likes his libations most often in the privacy of his home

MERRILL LYNCH WHITE WELD

CAPITAL MARKETS GROUP REPORT: 2

THE FACTS:

For 10 consecutive years, Merrill Lynch White Weld has ranked first in Corporate Underwriting.

In 1980, Merrill Lynch White Weld Capital Markets Group managed $21 billion in corporate equity and debt financings, accounting for over one third of all offerings in the U.S. market for the year. We remained the leading manager of corporate security financings, while increasing our transactions by 37%.

The Investment bankers in our Public Utility Group managed 114 offerings—$10.3 billion—accounting for 53% of the total utility financing in the U.S. Of these 114 offerings, 81 were negotiated offerings, which represented over half the total-dollar negotiated-offering volume for the year.

In 1980, our Financial Institutions Group managed $1.6 billion, which was 67% of the volume of bank financings done in the U.S. In mergers and acquisitions, we remained one of the industry leaders, with 27 transactions totaling $5.5 billion. Our private-placement activity also remained strong: we completed 72 transactions, totaling over $1.6 billion.

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In pollution-control financing, we ranked second in the industry, including managing the 2 largest financings for the year—both valued at over $100 million.

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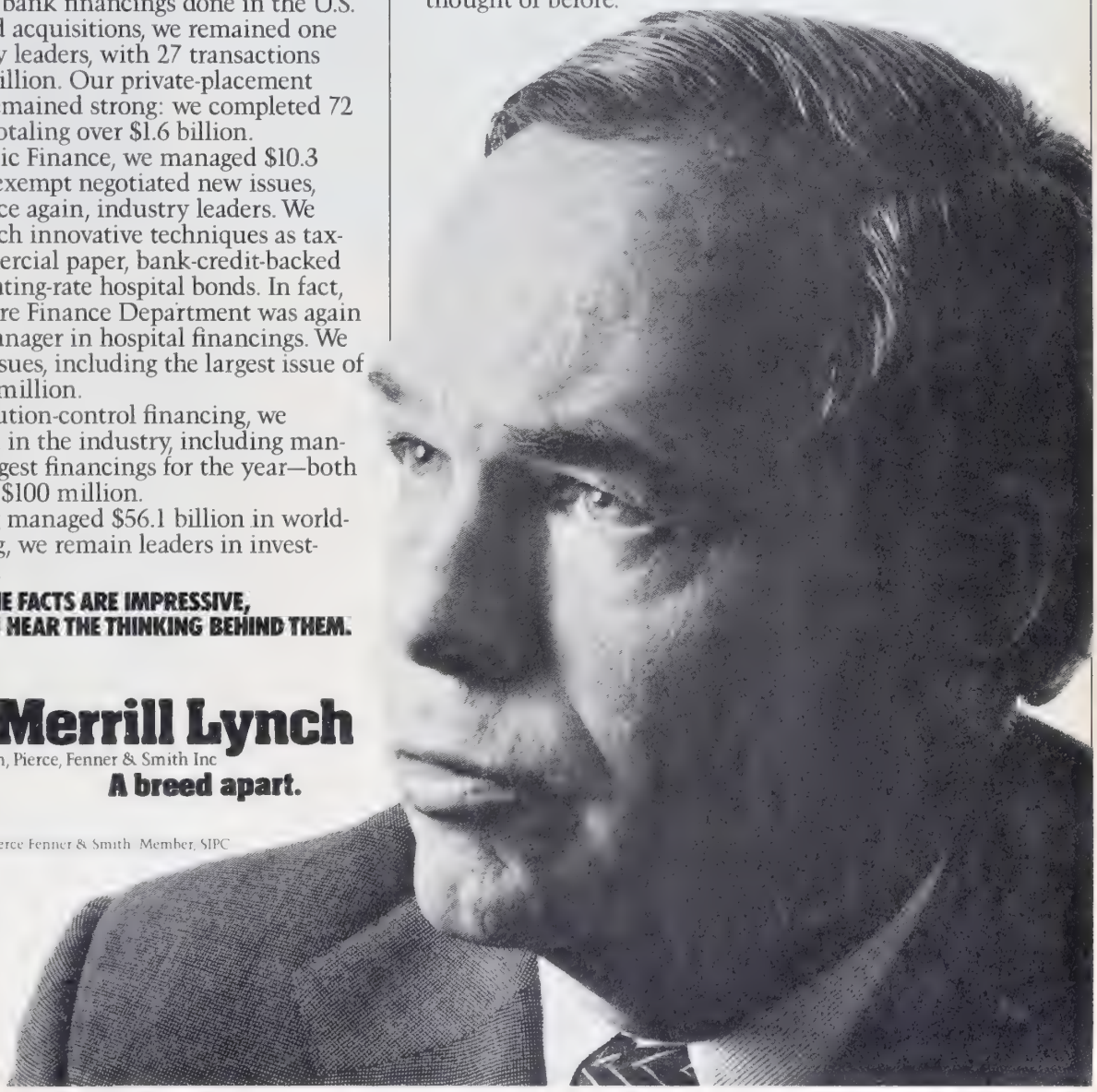

Asarco...meeting the metal needs of the 80's

Front-end ore loader at MIM's Mount Isa underground mine. Mount Isa is one of the largest mines in the world where copper, silver, lead and zinc are found in close proximity.

with an increasingly valuable stake in one of Australia's largest metal producers.

Asarco's interest in M.I.M. Holdings Limited in Australia goes back 50 years. Today, Asarco owns 48.9% of this great mining and metals company whose output in its past fiscal year contained:

15 million troy ounces of silver
178,000 tons of copper
170,000 tons of lead
116,000 tons of zinc
731,000 tons of coal

Last year MIM started an expansion program which will increase silver-lead-zinc output at its Mount Isa mine by 20%. MIM also plans to invest A$550 million by the mid-1980's to expand its coal production in the Collinsville-Newlands region.

Asarco's equity in the earnings of MIM has increased steadily from $19.6 million in 1976 to $113.4 million in 1980. For more information on Asarco and its associated companies, such as MIM, send for a copy of our Fact Book. Dept. 65, ASARCO Incorporated, 120 Broadway, New York, N.Y. 10271.

ASARCO
Metals & Minerals

rather than in a bar or restaurant. And what are we drinking? Vodka and gin sell the most cases (the industry's major benchmark) but *Impact*, an industry trade magazine, finds that individual drinkers prefer Jack Daniel's, Kahlua and Bacardi rum. Meanwhile, the seemingly inexorable craze for "lightness" (reflected in sales of menthol cigarettes and light beer) has helped push the sales of white wine over red, with whites now enjoying a 54% market share, double what it was a decade ago. The typical white wine drinker today: a young (30 to 39), affluent ($25,000 and up) woman living in the West who likes to drink premium-priced vintages with her dinner. Harry Teasley, president of Coca-Cola's wine division, who helped engineer Coke's entry into the wine business in 1977, says that his company will continue to aim its whites at "urban, white-collar America." The good ol' boy, apparently, will be left alone.

Dial 800 for help

Working from the premise that an employee's problems can mean management headaches, Control Data Corp. is now selling a dial-for-help program it has been using in-house for seven years. The plan (which costs some $15 per employee per year) involves a 24-hour "800" telephone hot line that allows workers to call for aid with any personal or family problem, work-related or not, ranging from morale to mortgage payments, from alcohol to alimony. Administered through Control Data's health-care arm, the Life Extension Institute, the scheme provides confidential counseling or referrals and, if need be, private face-to-face meetings with professionals. One manager of the program, Dr. Stephen Duvall (his doctorate is in counseling), says the plan aims for maximum usage, noting that during the seven years it has been available to Control Data's 48,000 employees, 30,000 have used it. Humanitarianism aside, Duvall says, the economics of the plan are plain. Any corporation, he says, knows how much it spends—and loses—handling employees in the "disciplinary process" (counselor talk for firing), which can take up to 90 days from the time a worker begins to be a problem. So far, Control Data has netted 37 outside customers, including the National Basketball Association, which has a $100,000-a-year deal for its players.

ne-Grethe Banke Nørgaard, kindergarten teacher, talking about her husband Egon, district manager with Skandinavisk Henkel.

Every two months I kiss the man from Henkel here in the kindergarten."

here are two good reasons why I k forward to his call – as his tomer and as his wife.
e kindergarten where I work is one Egon's many customers in and und København. Egon is a Henkel resentative specializing in large tomers – laundries, canteens, dergartens and so on.
re in Scandinavia cleanliness and giene are taken very seriously. h of Egon's customers has diffe- t problems regarding washing, ning or rinsing.
e kindergarten, for example, which ves a large community including ny working mothers such as you l find all over Denmark.
e like to give the children free reign and we don't mind them getting their clothes dirty. That means a lot of work for us because we wash their play clothes.
And we've always managed quite well up till now. This is where my husband comes into the picture. Or rather: the quality of Henkel products.
Egon often comes home late from visiting customers. So, he brings along a little present for the two children, Camilla and Katrine. Big, bright lollipops, for instance.
Once I heard Camilla say to Katrine, 'Lollipops this good could only come from Henkel'."

My husband Egon.

Skandinavisk Henkel A/S, København-Valby, is one of more than 100 companies of the Henkel group, situated in more than 40 countries. Worldwide sales 1980 = 7.6 billion DM. 33,000 employees. Headquarters Dusseldorf, Federal Republic of Germany. Product range includes laundry products, household cleaners, cosmetics, adhesives, industrial cleaners, oleochemicals, auxiliary products for textile and leather industries. Over 8,000 products for all walks of life.

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Follow-Through

Keep on truckin'

A year and a half ago Ryder System's chairman, Leslie Barnes, the man who had put the $1.7 billion truck-leasing firm back on the fast track, hinted to FORBES *(Jan. 21, 1980)* that he saw new turns ahead. "We've got to move into areas that are a little less fuel dependent," he said, "a little more service oriented, but still transportation related." Ryder is keeping its plans under the hood, but its 38-year-old president, M. Anthony Burns, has lifted the lid a little.

Within the next year, he says, Ryder will make a major acquisition of a positive cash flow company that is almost everything that Ryder is not: "A service company, say, that is not energy intensive, does not have leverage and has high tax payments."

The reason, it seems, is that Ryder cannot use all the tax benefits generated each year in depreciation by its more than $1 billion worth of revenue-producing equipment. About $80 million in these benefits are going out the exhaust but could be put to good use in a different line of business. Financial service seems to be a most likely area. The firm is already making money in the insurance business, and last year it introduced its still-tiny FASTRAK credit card for truck owner-operators.

Burns, an obvious candidate to succeed Barnes (who will be 65 next year), also reckons that Ryder could buy a contract carrier, now that truck deregulation is in full force. Already a $60 million business for Ryder, Burns expects the higher-margin contract carrier segment to grow by 30% a year and reach $150 million by 1985, compared with an annual growth rate of 15% to 20% in leasing.

And how will Ryder pay for its acquisitions? Equity perhaps, and borrowing, says Burns, a former Mobil Oil controller who came up through the financial side at Ryder. (Barnes hoisted him into the management cab at the end of 1979.) "Under our current $250 million line of revolving credit," he says, "we still have $190 million we could borrow on a telephone call." Not that it would be quite that easy. The $190 million would be at a prime rate of more than 20% and Ryder's debt-to-total-capital ratio is already close to 70%.

Does this mean Ryder wants to get out of leasing? That amounted to 65% of the business last year but did most to pull earnings down 10%, to $56.5 million. Definitely not, Burns says. "Contract carriage will become more significant but truck leasing and rental will continue to be the backbone of the company."

Credit counterattack

A year ago FORBES sounded the warning "caveat creditor" *(July 7, 1980)* in a report on the new federal bankruptcy code that had gone into effect the previous October. That forecast of a wild surge in personal bankruptcies proved only too true—in 1980 they rose to a record 397,958, a 72% jump over 1979. But that was just half the story. With personal bankruptcies promising to hit 500,000 this year, creditors around the country have decided to fight back.

The specter of a nation seemingly bent on using the bankruptcy court as the newest escape hatch from debt sent a shudder through consumer lenders. In 1980 writeoffs due to personal bankruptcy filings rose to an estimated $3.2 billion from $2.4 billion the previous year. These losses charged the air with concern at last month's meeting of the National Consumer Finance Association in San Francisco. Reece Overcash Jr., chief executive of Associates Corp. of North America, the Dallas consumer-finance giant, summed it up: "This code is contrary to the moral fiber of America. Our nation is built on the

Andrew Brimmer
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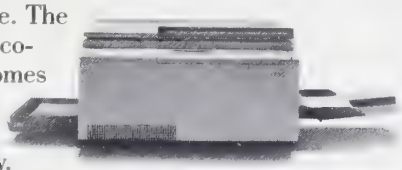

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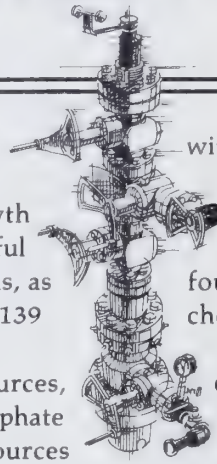
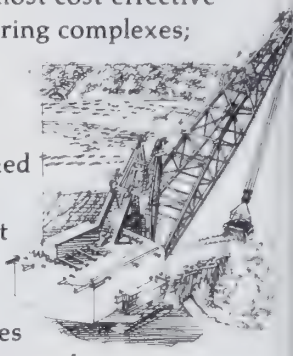
Why Williams Is Worth Watching in the '80s



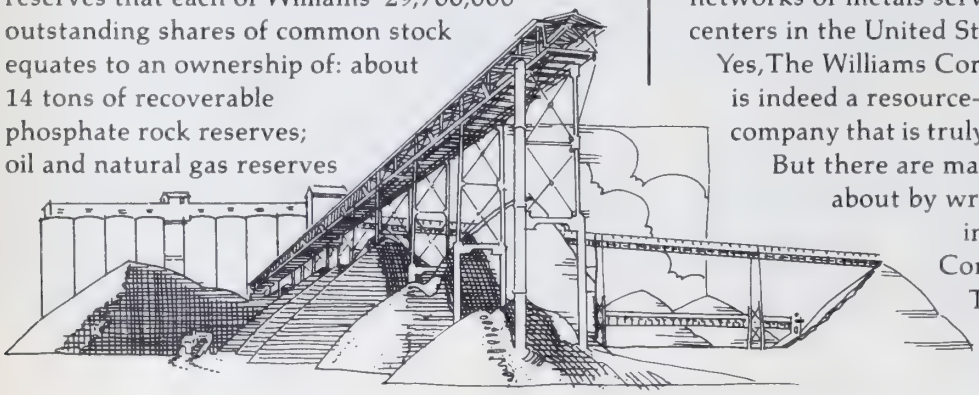
One good reason is because we're rich in resources. During the '70s we set out to position ourselves as a resource-rich growth company of the '80s. We have been successful with this strategy and it's paying off for us, as evidenced by record 1980 net income of $139 million, double that of the previous year.

Today, we are strong in natural resources, with increasingly valuable reserves of phosphate rock, oil, natural gas and coal. These resources provide us considerable promise for continued progress in the '80s and beyond. So extensive are these reserves that each of Williams' 29,700,000 outstanding shares of common stock equates to an ownership of: about 14 tons of recoverable phosphate rock reserves; oil and natural gas reserves with an energy equivalent of nearly a barrel of oil; and some 75 tons of coal reserves. We also have many other valuable assets which we consider major resources for the '80s. We own and operate four of the nation's largest, most cost effective chemical fertilizer manufacturing complexes; a successful oil and gas exploration and production company; the world's largest independently owned petroleum products pipeline system; and one of the largest networks of metals service centers in the United States.



Yes, The Williams Companies is indeed a resource-rich, growth company that is truly "worth watching in the '80s."

But there are many more reasons you can learn about by writing L. R. Francisco, manager investor relations, The Williams Companies, One Williams Center, Tulsa, OK 74172. Ask for a copy of our 1980 Annual Report.



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WILLIAMS

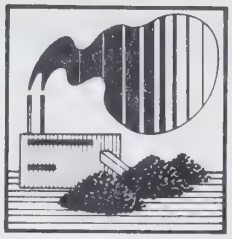
Follow-Through

rinciple of honoring your debts."

The first battle in the lenders' counerattack against the code will be ought on Capitol Hill. More than 50 f the top consumer lending firms ave drafted a proposed revision of he 1979 bankruptcy code and put it n the hands of GOP Senator Robert J. Dole of Kansas, chairman of the Subommittee on the Courts of the Sente Judiciary Committee. Dole has aleady held hearings and is expected to ntroduce a bill amending the code ater this summer. Dole's bill appears ikely to heed the call of creditors to ase the discharge of debt in any ankruptcy proceeding on projected uture income rather than on real aset, the current rule. Such a measure an probably expect a sympathetic reeption in the Senate; passage in the Iouse—which drafted the current ode—could prove tougher.

Expecting a long fight in Congress, enders are also taking corrective neasures of their own. Creditors tung by the new code are trying urently to establish a profile of the avrage bankrupt in hope of cutting off ll lending to anyone who fits the attern. One group, led by Beneficial Ianagement Corp. of Morristown, J.J., commissioned Brimmer & Co., a Vashington, D.C. consulting firm, to elp draw the profile. The data Brimner turned up in a sample study could ode ill for a major segment of the merican borrowing public. "What e found in our sample," says Anrew Brimmer, the former Federal Reerve Board governor who heads the rm, "is that 78% of bankrupts have bs; almost as many white-collar inividuals go bankrupt as blue-collar; nd 37% earn more than $15,000 per ear. Some 48% have some college or college degree and the greatest numer are in the 25-to-34 age bracket."

Brimmer also determined that 64% f the bankrupts believed they had uffered no damaging stigma on their ves by fleeing to the courts. Such omplacency, which lenders believe orders on amorality, has focused the nding spotlight on young, educated ut unsecured borrowers. Finn Casersen, chief executive of Beneficial, uts it this way: "You've got a situaon now where no credit will be ranted to people without real assets. ntil the code is changed people who ould in the past have qualified for redit on the basis of earnings, won't. o assets, no credit. This code has ruck into the mainstream."



Robertshaw's new electronic idea solves problems in fly ash removal for utilities.

At coal-fired power generating stations, tons of fly ash are collected daily in giant hoppers. Detecting the "full" level was a "hit or miss" proposition until Robertshaw designed a unique sensing probe that works for fly ash in a variety of vessels. Result—cost savings from faster, more efficient removal operations.

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The real imperialist

SIR: Re "Red News—Really" *(Other Comments, May 25)* where Pravda writes of "American Imperialism." "Imperialist" derives from the Latin word *imperium* (translated "empire"). It means that a strong country expands its frontiers by subjugating other, weaker countries. The only "imperialist" country left in this world is the Soviet Union. She swallowed Estonia, Latvia and Lithuania, parts of Poland, invaded Czechoslovakia, Hungary and now Afghanistan.
—Norman H. Linton
Kew Gardens, N.Y.

Some things never change

SIR: The 50-years-ago Flashbacks *(Apr. 13)* dealing with U.S. efforts at agricultural stabilization in the 1930s is too close to today's agriculture here in Canada to be anything but frightening. Canadians have probably learned the least of any country as we hasten to initiate supports, quotas, marketing boards and other mechanisms.

Because of this, I would like permission to reproduce the article for classroom use in my Agricultural Marketing Course here at Centralia College.
—R.S. Thompson
Centralia College of Agricultural Technology
Huron Park, Ont.

Simple tax

SIR: If every single taxpayer paid 15% of his full income from every source—with no deductions of any kind—the government would collect more money than it does now. Imagine the simplification of it all. Or is this too uncomplicated for the U.S. Treasury to accept?
—Budd Mayer
Miami, Fla.

Popping pills

SIR: Eating a balanced diet is easy and simple ("We who swallow various vitamin pills," *Fact and Comment, May 25*). Popping vitamin pills is easy and simple-minded.
—Ruth D. Boone
Lake Placid, Fla.

SIR: Your comment suggests another contribution to improving the health of our economy—let's assume those 75 million pill-poppers spend an average of only $1 per week on their vitamin fix. What a boon if we could persuade these hypochondriacs to take their vitamin money and invest it in a fund committed to putting its money into business expansion.
—Thomas T. Semon
New York, N.Y

Perfectly all right

SIR: You imply that IBM's use of a $26.5 million tax-exempt industrial revenue bond issue for a pollution control project is somehow suspect because IBM is not a small business. Congress placed no company size or dollar limitation on industrial revenue bonds for pollution control.
—Victor J. Goldberg
Vice President-Communications, IBM
Armonk, N.Y.

MSF's *OMNI* interview

SIR: As president of the National Association of Letter Carriers, I represent some 233,000 members who would take strong issue with MSF's comment in the *Omni* interview reprinted in FORBES *(Apr. 13)* that the postal service ". . . can't even deliver letters."

In 1980 U.S. postal workers delivered a record 106.3 billion pieces of mail, 156,752 pieces of mail per employee per year—the highest productivity rate of any nation. The workers of even the next highest nation in productivity—Japan—deliver a full third less than their American counterparts.
—Vincent R. Sombrotto
President,
National Association of Letter Carriers
Washington, D.C.

SIR: MSF says: "It's an ideal combination if you can have an engineer who's a graduate of a business school. For women, God, what a unique thing! With such competence maybe they wouldn't even be criticized for being promoted."

The Wharton School and the School of Engineering and Applied Science at the University of Pennsylvania do have a dual degree program.

I asked the university about this program and they said: "The program is attracting students from the top 5% of their high school classes and salary offers to the first graduating classes show the value business places on such training. Enrollment is growing rapidly and the program is appealing to women."
—J. Paul Lyet
Chairman,
Sperry Corp.
New York, N.Y.

SIR: Re your comments about the "unique thing," *i.e.*, a technically trained, business school graduate woman. We are not unique, nor are we things, although our numbers also may not be legion.
—Joanne Gucwa Fujii
Wheeling, Ill.

SIR: Your interview with *Omni* contains idiotic ideas.
—James Yankawits Jr.
N. Beach Haven, N.J.

For another reaction to the interview, see Other Comments (p. 22).—ED.

Higher-ranking policies

SIR: Our analysis indicates that The Equitable ranks number one on a competitive cost basis among our peer companies for whole life policies (both standard and preferred) of $100,000 or more face amount. Your article *(May 11)* referred to a 1980 *Best's Review* ranking, which was in error and was retracted by *Best's Review* in January 1981.
—Coy Eklund
President and CEO,
The Equitable Life Assurance Society of the U.S.
New York, N.Y.

The corrected rankings place The Equitable 9th, not 38th, in interest-adjusted payment cost. But the corrected tables boost the ranking for only the Equitable's preferred-risk policies.—ED.

Original social engineer

SIR: Anna Mayo *(Other Comments, May 25)* says that the word "hooker" originated from General Hooker's idea of busing ladies of the night to Union camps during the Civil War. Could this also have been the origin of the idea of busing to achieve integration?

Do you happen to know what sort of buses General Hooker used?
—J.H. Tatsch
Sudbury, Mass.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

DID YOU EVER THINK YOU'D LIVE

to see this day when Capitol Democrats overwhelmingly support Republican-sponsored federal spending cuts, overwhelmingly oppose Republican-sponsored tax cuts?!?

THE LEAST EXPENSIVE, BEST AND ONLY WAY TO DEFEND MIDEAST OIL

s not to have that energy source continue to be essential o the functioning—literally—of our country and of Western Europe.

For a relative fraction of the potentially catastrophic cost of militarily defending Saudi Arabia et al against an outright U.S.S.R. assault, we will, within four or five years, be able to survive with oil from other sources, supplemented by additional energy sources developed with unmitigated national intensity.

As a practical military matter, we can and must gear up a Rapid Deployment Force that could effectively backstop friendly Mideast governments against assaults from the likes of Red South Yemen, as well as from outside-generated leftist overthrow.

But anyone who thinks we can and should prepare to defend the Mideast against a frontal assault by the U.S.S.R. itself is smoking a pipeful of illicit substances.

In the present climate of momentary oil surplus, let's not trap ourselves into letting up on any and every sensible effort to develop alternative energy—atomic, coal (as is and liquefied), shale and bits of help from sun, wind and subterranean steam.

SPEAKING OF MIDEAST OIL, LET MESSRS. REAGAN, REGAN AND EDWARDS

get about filling—as instantly as anything can be instant in Washington—those salt domes intended to supply us with a six-month oil reserve.

Presently we are totally at the mercy of political or military eruptions in those oil-rich countries of unmatched volatility.

IF ONLY VOTING COULD MAKE IT SO

By 96-to-0 the Senate buried Administration proposals o trim Social Security benefits. One would think the President had made such proposals maliciously rather than because our Social Security system is nearing bankruptcy.

Maybe it would do the trick if the Senate voted unanimously to make it against the law for the Social Security system to go broke.

At the same time they could, by unanimous vote, make inflation illegal.

And with still another vote they could make it illegal for the declining number of young to be unhappy in turning over ever-bigger amounts of their earnings to support the ever-growing number of those entitled to Social Security's ever-growing benefits.

SINCE OUR PRESIDENTS WON'T, PROBABLY SHOULDN'T AND

really couldn't if they wanted to be sealed off from the public, at least President Reagan's personal safety can be vastly improved by the wearing, on certain occasions, of bulletproof clothing.

In this free land of 50 million handguns and countless millions of rifles and shotguns, a number are certainly in the hands of psychopaths.

Bulletproof gear made of Du Pont's extraordinarily strong laboratory fiber, Kevlar, is 5 times stronger than steel, yet not anything like as uncomfortable as those old-time steelclads so similar to the attire of knights of old.

As a matter of fact, as one who's taken an occasional unintended high-speed spill on a motorcycle, I have a Kevlar-lined blue jean jacket that's vastly safer than the toughest leather to protect one against roadrash.

Now it's possible to get undershirts and dress shirts, as well as vests, raincoats and windbreakers made of bullet-retarding Kevlar.

Meantime, we have forwarded to the President that Kevlared blue jean jacket. Let's hope it fits.

HOT AIR GOT ME INVITED TO THE WHITE HOUSE

luncheon the President gave to honor Space Shuttle pilots John Young and Bob Crippen, NASA Director Alan Lovelace and all present and former U.S. astronauts. Sprinkled among the impressive VIP guests were a few miscellaneous sorts, such as this hot-air aeronaut. The President, in his warm, straightforward manner, made hearts stir with pride, patriotism over Columbia's extraordinary success.

At our table, in response to concerns expressed over better insuring the President's safety, Mrs. Reagan said that far more careful and extensive measures were now being taken. To my mention of bulletproof clothing *(see above)*, she observed: "I wish the press wouldn't dwell on this matter of a bulletproof vest. It can dangerously reduce the effectiveness."

THAT THERE ARE FEWER BABIES MAY BE BAD NEWS

for diaper outfits and may call for rethinking about ever more campus bricks and mortar. But the bright side of the coin is that, with fewer young, the unemployment rate is bound eventually to be down. And these fewer millions of kids will be the beneficiaries of greater educational concentration, wider options and brighter prospects as they grow up.

—GO, [illegible], STOP

● **Sichuan Pavilion**—322 E. 44th St. (Tel: 986-3775). A dazzling addition to the New York Chinese restaurant scene where thousands exist and few are Chiaohsien. Chinatown should have one so good.

● **Jane Street Seafood Cafe**—31 Eighth Ave. (Tel: 243-9237). In Greenwich Village, real food really good is rare. Boutique prevails, be it clothes, antiques or restaurants. The seafood here is fresh, unpretentiously but flavorfully prepared. The modest owner of this splendid place used to work in a neighborhood fish market and knows his pisces.

● **A Bientôt du Soir**—328 West 12th St. (Tel: 924-3413). The setting, the attitude and much of the food is good—good enough to wish it would get sufficiently better to warrant more than one star. The snails were first rate; the mignonettes de boeuf was lean and tender, and the peppercorn-mustard-cognac sauce most tasty. The fresh vegetables were on the watery side.

● **Curtain Up!**—403 West 43rd St. (Tel: 564-7272). Broadway Show Biz's newest hangout. The decor and faces make a refreshing replacement for passé-ing Sardi's. Unfortunately, the food's little better.

● **The Odeon**—145 W. Broadway (Tel: 233-0507). Here's the place to experience Soho's wrong-side-of-the-tracks (Tribeca to aware Manhattanites) while enjoying good nouvelle dishes in a most nouvelle version of Art Deco—a decor that glaringly (in a literal sense) fails to conceal its former cafeteria né warehouse past. Alive with dressed-out real artists and many of the spangled *outrés*. Different, fun and most digestible.

● **Le Perigord**—405 East 52nd St. (Tel: 755-6244). Its price and its ambience are on a par with the City's French topmost, but, unfortunately, too often some of its main courses are not. Their Grand Marnier mousse is the best of this too rare white twist to the chocolate staple.

● **Pasta 'n' Cheese Cafe**—at Bergdorf Goodman, 58th St. and Fifth Ave. (Tel: 872-8843). This is among the best buys in this topnotch emporium. Sandwiches that could hold their own at the most splendid London high tea, as well as chunkful salads and pastas, make it worth the size larger ladies will end up with when trying on clothes on the other Bergdorf floors.

* * *

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INTRODUCING HIS CEO SUCCESSOR, JOHN OPEL, IBM'S FRANK CARY

bserved, "Retiring chiefs go from *Who's Who* to who's he?"

For such as Frank, though, that's nighty unlikely.

And speaking of IBM predecessors, we recently came across this delightful photograph of IBM ounder Tom Watson being awarded irst prize 44 years ago as winner of a Forbes Magazine contest for heading a company with "the most aggressive modernization program."

FROM WIDE WORLD PHOTOS: NEW YORK CITY
WATCH YOUR CREDIT LINE:

PRIZES AWARDED IN FORBES MODERNIZATION CONTEST

PHOTO SHOWS: B.C. FORBES, PUBLISHER OF THE MAGAZINE "FORBES," TODAY AWARDED THE PRIZES IN THE FORBES MODERNIZATION CONTEST TO THE WINNERS AT THE WALDORF ASTORIA HOTEL. THE FIRST PRIZE WAS AWARDED TO PAUL BACHELLER OF ENDICOTT, N.Y., FOR HIS STORY, "AGGRESSIVE MODERNIZATION AT INTERNATIONAL BUSINESS MACHINES;" AND THE FORBES MAGAZINE CUP WAS AWARDED TO INTERNATIONAL BUSINESS MACHINES CORP. FOR OUTSTANDING INDUSTRIAL MODERNIZATION.
H-5/28/36

PHOTO SHOWS: THOMAS J. WATSON, PRESIDENT OF INTERNATIONAL BUSINESS MACHINES CORP., (LEFT), RECEIVES THE CUP AWARDED TO HIS COMPANY FROM B.C. FORBES.
H-5/28/36

Handing him the silver cup on May 28 in 1936 is B.C. Forbes, founder of Forbes.

* * *

Seeing this old photo reminded me that the father of Forbes and Forbeses would have been 101 last month. Among fond memories, this one: While he had no use for wearing, he was pretty good at substitutes when aroused. Instead of "Who in hell did that," it would come out "Who in blazes. . . !" A damn fool to him was "an utter ass"—the animal, not the anatomy.

Most often, cursing is a lazy, ignorant substitute for more imaginative choices of words. Has any expletive ever topped Churchill's description of Hitler as "that evil man"?

THESE DAYS THERE'S LESS

to be sure of but much to be positive about.

EVERYBODY THINKS "THE PUBLIC"

is somebody else.

WHAT THE NEAR-TERM FUTURE HOLDS

By M.S. Forbes Jr.

The experts are baffled. The economy continues to show unexpected strength. Yet contrary to textbooks, inflationary pressures are lessening. But even though price pressures have been easing, inflation-adjusted interest rates have been sky-high. To have such economic conditions existing side by side isn't supposed to happen.

Economists needn't fret much longer. These anomalies are starting to sort themselves out.

Inflation. The current easing is no flash in the pan. With a little luck—primarily the absence of an oil-disrupting Mideast war—inflation will be in the single-digit area this year and next.

The barometers for rising prices are negative. Oil supplies are in surplus. Silver and gold prices are down, as are general commodity indexes. Housing prices are flat, which is going to put a dampener on consumer spending. Previously, homeowners had the feeling that their houses were money in the bank, money that could be pulled out when they moved or with a second mortgage. Experts estimate that one-third of net new mortgage money in recent years went not for housing but for consumer expenditures—vacations, tuitions, appliances and the like.

Interest rates. They're trending down, though we're likely to see a continuation of volatility in the immediate future and perhaps a credit crunch before year-end. A crunch could temporarily shoot short-term interest rates up but won't have much impact on the long-term ones. Investors shouldn't be misled by such roller-coaster conditions. They will be short-lived.

This writer will repeat his prediction of several months ago *(Feb. 16, p. 21)*: "When will we see interest rates back in single digits? By the spring of 1982."

The economy. The buoyancy of the past eight months is going to abate. Tighter credit conditions and softer housing prices will see to that. But we won't have a full-fledged recession. Reason: defense spending and the powerful boom in energy exploration. The magnitude of the energy boom was recently summarized by Kidder, Peabody economist Sam Nakagama: "The most far-reaching structural change is the shift of money and resources into the oil and gas drilling industry. Oil and gas drilling activity has become larger than auto output [in total industrial production]."

BETTER WAYS

A number of lawmakers want to add an amendment to the Reagan tax bill that would give companies a tax credit for increased research and development expenditures. Such a credit is not the way to go about developing and sharpening our technological prowess.

One mare's nest is definition: Research and development can cover not only microprocessors, genetics and the like, but also breakthroughs in deodorants, detergents, opera windows, etc. Moreover, such credits would tend to benefit existing, profitable companies rather than smaller marginal outfits that tend to come up with many of the significant advances.

History shows that the most efficient way the U.S. can encourage innovation is to reduce the capital gains tax. Another way our government could assist in developing technology is through better use of military procurement. Long-term contracts would help companies get the financing needed to compete effectively against the Japanese.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Closing the Gap

Elderly poverty has plunged from 35% to 15% in the period from 1959 to 1979. The mean per capita income of the elderly is now only 6% below that of the entire population, and the elderly have a higher average net worth. This is [not] to say that the current program should be cut back. There is still a very small way yet to go. But social welfare roles do not call for making the elderly richer than the rest of the population.

—Lester C. Thurow, MIT professor

ROTC Inflated

Tuition costs are soaring, so Reserved Officers Training Corps looks like a good deal: A four-year scholarship in exchange for four years of active duty.

—*U.S. News & World Report*

Worthless, at $65 an Hour

Students from the nation's most prestigious law schools returned to class, having made as much as $700 a week [last] summer as interns at blue-chip corporate law firms. As if these salaries weren't enough, the future lawyers are busily comparing notes on which firm provided the best country club outings, weekend excursions and other perks. Their work is nearly worthless. Nonetheless, the cost of their services was easily passed along at rates of $50 to $65 an hour to corporate clients who still seem willing to pay legal bills with all the consumer consciousness of a sheikh at Gucci's.

—Steven Brill, editor, *American Lawyer*

No 55-mph limit?

Just before you cough, you inhale 5 times more air than in an average breath, increasing the pressure in your lungs by a factor of 20. The cough expels air as fast as 100 miles an hour.

—*Science Digest*

Tool Drool

Malcolm Forbes, the Elder, has really gone too far by a long interview with Malcolm Forbes reprinted [in FORBES] from *Omni*. The interview appears under the astonishing title "The Future of Workaday Capitalism." And what, you may ask along with this astounded student of the shameless Chairman's chutzpa, could Forbes know of workaday anything? As the interview reveals, the man knows nothing. But how could he? He spends his time floating around the world seeking publicity in a variety of gigantic balloons, several armadas of which could have been sent aloft with the contents of the aforementioned interview. It seems that defacing the front of every copy of FORBES with his fustian musings and hokey homespun epigrams wasn't enough for Malcolm Forbes. Here is an annotated selection of drool from the world's leading capitalist tool:

On modern political systems: "Communism as a theory simply has not been accepted in the world. It's regarded as both inefficient and enslaving." Good lord! Somebody show this man a map.

On geostrategic armament balance: ". . . That's our problem with tanks. The U.S.S.R. has umpteen thousand of them along its borders." Umpteen? Forbes should quickly fire off one of his famous ("How to write a") business letters to the C.I.A. with this intelligence.

—by "Philip Lucre," *Savvy*

In any other country in the world, the Democrats would be five different parties.

—Speaker of the House Tip O'Neill

It's *How* You Get Dirty

Larry White of Rex Marine Center Inc. in South Norwalk has just salvaged a $430,000 contract on a 50-foot Hatteras luxury cruiser. The sale nearly got away. "This guy was here last year but he dressed in old work clothes and everybody ignored him." Adds Mr. White: "Just try to remember that sometimes that dirt under their fingernails is from burying money in the backyard."

—*Wall Street Journal*

"Does 'supply-side economics' mean I can depend on you for more money?"

Did You Know?

The French . . . are now the third-largest exporting nation in the world.

—*Advertising Age*

Unsavvy Servants

When Russian Czar Peter the Great had several ministers or generals at his table, he was attended only by his chef and maitre d'hotel, an orderly and two pages, and they had strict orders to retire as soon as dessert was put on the table and a bottle of wine had been set before each guest. "I don't want them to observe me when I am speaking freely," Peter explained to the Prussian ambassador. "Not only do they spy on me, but they understand everything erroneously."

—by Robert Massie, *Peter the Great*

IS THE AMERICAN
ENTREPRENEUR
AN ENDANGERED SPECIES?
One of our national assets is in danger of extinction:
The entrepreneurial spirit of America itself.
Too many people believe business is best when business is shackled. And the very people who should defend free enterprise too often remain silent.
America today needs more people to stand up and speak out—whenever and wherever free enterprise is threatened.
After all, free enterprise, like freedom itself, never comes free.
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Xerox won't stop at nothing.

These days, even nothing costs something to send. That is, if you're using ordinary facsimile equipment.

Because ordinary facsimile equipment takes the time to read every line of type, and all the "nothing" in between.

Nothing

The new Xerox Telecopier 455

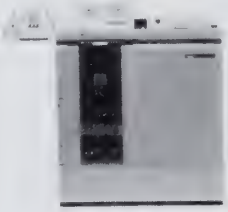
Xerox, on the other hand, has three machines -- two of them brand new --that know the difference between a line of something and a line of nothing: The Telecopier 485 terminal. The new automatic Telecopier 495 digital terminal, that can send and receive unattended. And the new -- and very economical -- desktop Telecopier 455 terminal. When they come to a space like this:

Nothing

they'll skip it -- the way your eyes just did -- and go on to the next line of type.

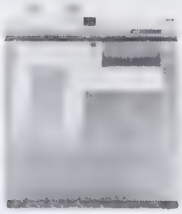
As a result, you can send a crisp, clear copy of the original document in as little as a minute. For up to 40% less than you'd normally spend on telephone charges.

Besides being fast, these machines are also very friendly. They're all on speaking terms with the other members of our Telecopier family. Even relatives working in remote parts of the world. In fact, they can talk to many competitive facsimile machines, as well.



The Xerox Telecopier 485

Nothing



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And the Telecopier 485, 495, and 455 terminals are just the beginning.

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BACK TO NORMAL?

THE LOBBYISTS SMASHED PRESIDENT REAGAN'S EFFORTS to inject a little common sense into Social Security. That's bad. But in doing so they may have frightened millions of middle-aged Americans into a readiness to save more adequately for their old age. And that's good.

The message: Start saving if you want a secure old age

SOCIAL SECURITY IS A GREAT SOCIAL GOOD but it has an unintended bad side effect. The money taken from workers to finance their retirement is not really invested to provide for their future, it is simply transferred to retired Americans as purchasing power. Your Social Security taxes are not being put to work; they are spent. This is not the fault of the retirees, but of politicians who cannot balance a budget. Whoever's fault, it deprives the nation of savings.

A scant decade ago, Americans were saving 8%. Today they are saving only 4.8%. The economy has expanded greatly over this period but the capital needed to finance the growth has not. So, factories have deteriorated. Interest rates have soared as profligate federal and local governments, eager homebuyers and capital-needy businessmen have fought over this dwindling stream of new capital.

While the nation needed the savings, individuals saw less and less reason to save. If they did save, inflation and high taxes would only confiscate the fruits of their frugality. Therefore, eat, drink and "invest" in collectibles. A penny saved was a penny lost.

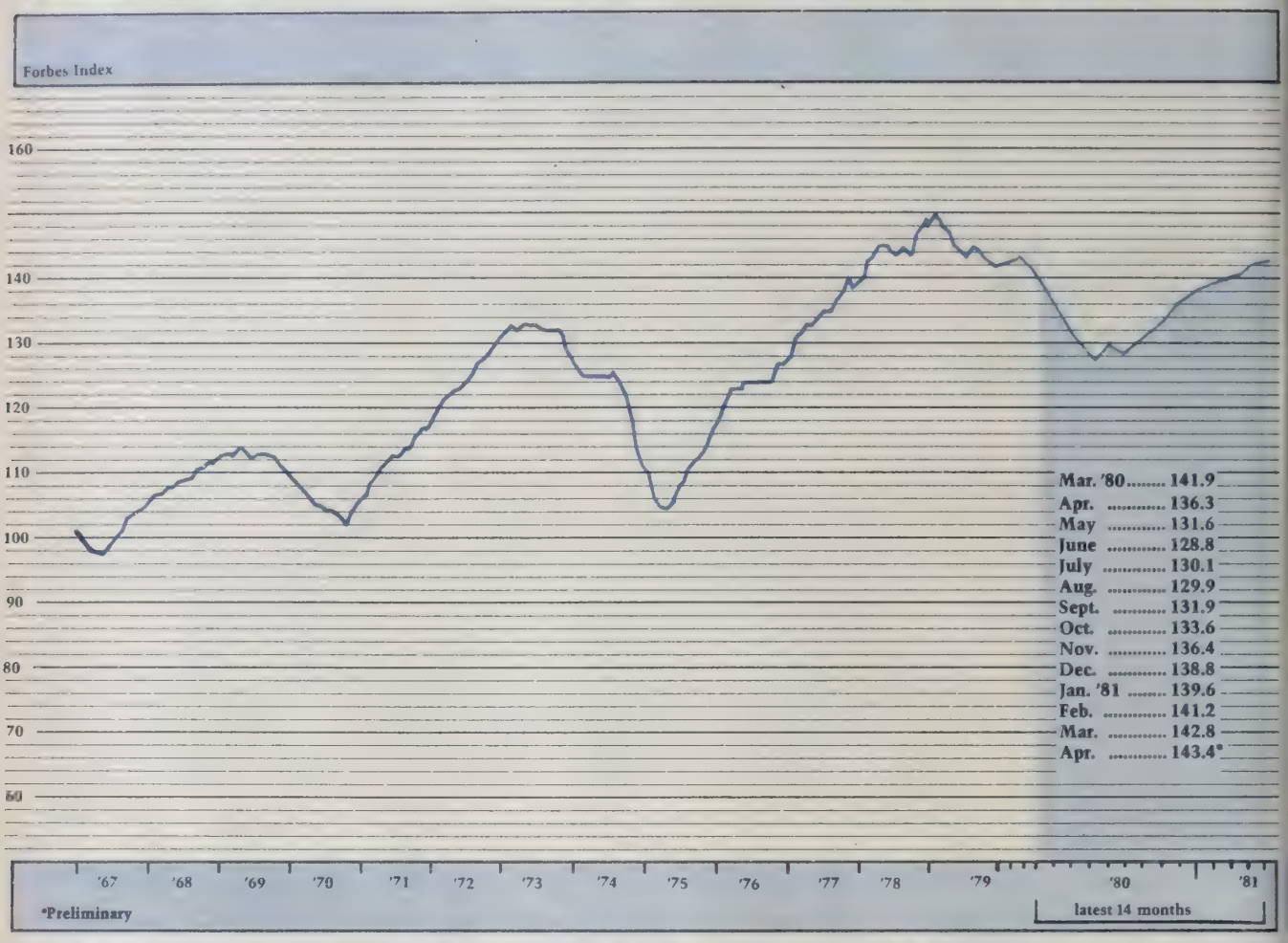
A better savings rate: carrot and stick

SLOWLY, THAT DAMAGING PSYCHOLOGY IS CHANGING. Worries about Social Security are growing just when high interest rates, proposed tax cuts and a decelerating inflation rate are making savings attractive again. A combination of fear and more positive incentives is swinging the balance back toward savings. While expectations almost always lag events—it is human nature to expect tomorrow to be just like today—the psychology *is* changing. For high-bracket individuals, tax rates and inflation rates *combined* still exceed long-term interest rates. But for institutions that pay no income taxes (and they control the bulk of the savings) the interest rate is now a good 4.5% above the inflation; that's a "real" rate of interest that is high by any standards. However, long-term rates seem to have peaked: A 30-year, 13⅞ Treasury bond brought to market May 7 at a price of 99¼ rose to 107 at month's end, yielding 12.93%. If you are discouraged about the slowness of a real rally to develop in bond prices, remember this: Bear markets never end with a flare of trumpets; normally they just peter out.

A worried American is a frugal American

AS PSYCHOLOGY IMPROVES, INFLATIONARY BORROWING—borrowing to buy assets to protect against inflation—will lessen at the same time as more savings flow into the economy. Inevitably, interest rates will come down; by Christmas people will be wondering whether a 20% prime rate wasn't just a bad dream. It won't be paradise on earth; there will be new things to worry about. But the economy will begin functioning normally again. *When*? We hold to our predictions of an 8% inflation rate by year-end and long-term interest rates of 10%.

The Forbes Index



The Forbes Index Components

Going up but slowing down. For the eighth straight month the Forbes Index is up. But the gain for April is only 0.4%, the smallest percentage increase since an actual decline in the second quarter of 1980. A downturn in the economy could be on the horizon. A definite sign of weakness is the decline in retail sales. Most of the gain in the April Index came from a rebound in housing starts—up 27.6% from the depressed levels of last year.

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

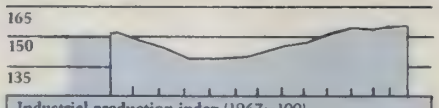
Total retail sales

New housing starts

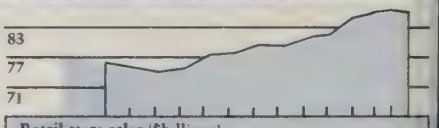
Personal income

The change in the amount of consumer installment debt outstanding

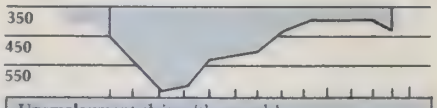
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



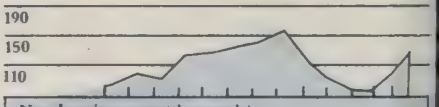
Industrial production index (1967=100) seasonally adjusted (Federal Reserve)



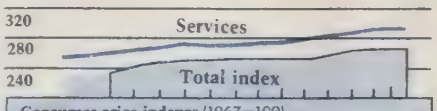
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



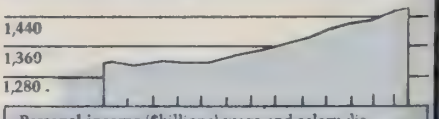
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)



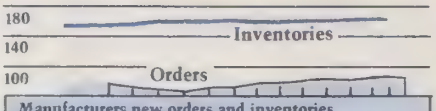
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



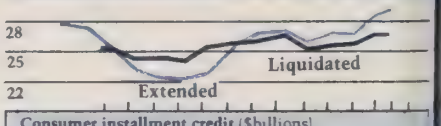
Consumer price indexes (1967=100) all urban consumers, unadjusted (Dept. of Labor)



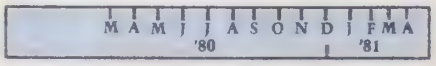
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

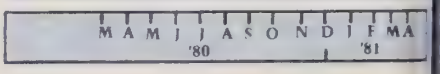


Manufacturers new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)





/hy St. Regis submerged a bag of potato chips in 25 ft. of sea water for four hours.

ppened 200 yards off the coast of
ini. In a two-man submarine, we
an oversized bag of potato chips
eet below the
ntic Ocean. And
left the bag there
our hours.

Why did we sink
bag into a world
lly populated only
and sharks, barra-
, brain coral and
y imaginable color of tropical fish?
lid it to prove something about
Regis' technological leadership in
ing plastic film.

Of course, a bag of potato chips
st never has to withstand the ton
essure and onslaught of moisture
one was subjected to. Our bag is
gned to keep out moisture vapor
gases, like oxygen, as well as keep oils in. It has to do all this to ensure freshness and preserve shelf life.

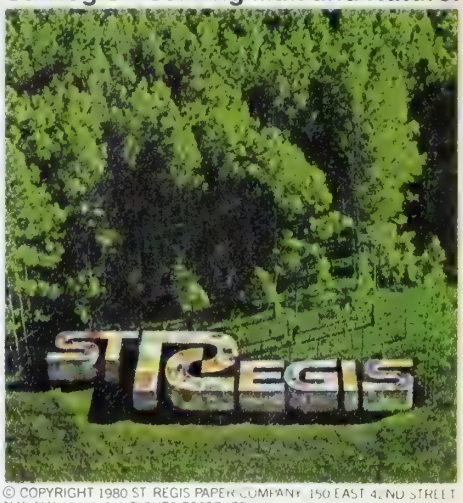
This St. Regis potato chip bag does this so well because it's made of our Co-Ex film—three layers extruded simultaneously. Each layer imparts a different property to the film, not only for keeping things out, but to help keep freshness and flavor in.

What happened when the four hours were up? We opened the bag and ate some chips, right down to the last crisp, flavorful crumb.

Co-Ex film is just one example of why St. Regis is a leader in packaging technology.

All this reflects the marketing stance of St. Regis toward all our packaging, paper, lumber and construction products. To use the full weight of our technology in serving our markets and in renewing the forest resource our products come from.

St. Regis—serving Man and Nature.



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Cities Service has been trading like Popsicles in July—or like undervalued assets.

A tender proposition?

By Toni Mack

WHAT'S THE BIG ATTRACTION in Cities Service Co.? In the ten weeks ending May 29, the $7.8 billion (revenues), Tulsa-based oil company has made regular appearances on the New York Stock Exchange most-active list. All told, 12.9 million—or 15.5%—of its 83.3 million shares have changed hands.

Speculation about a takeover has continued since the January announcement by Cities that Mesa Petroleum had purchased 1% of its stock. The recent news along that line was that Calgary's Nu-West Group Ltd. had bought 5.5 million Cities shares—6.6% of the outstanding.

But for all the distant thunder, there has been no lightning and no rain. Cities Service, which earned $447.5 million or $5.73 a share last year and is unlikely to earn that much this year, is like the homely fellow with the packed datebook: What makes him so extraordinary?

Nothing that immediately hits the eye. Cities currently is hobbled by a 291,000 barrel-per-day Lake Charles, La. refinery that is faring no better than any other one. Diving refinery margins in the first quarter dropped Cities' earnings 66%. Management's recent moves with other operations are uninspiring. President Charles J. Waidelich has spent $100 million since 1978 and plans to spend $300 million more to expand Cities' polyethylene capacity. But the expansion won't make Cities anything more than an also-ran in the plastics business, where there is worldwide concern about overcapacity. "That's an area where OPEC is going to start blasting people out of the water," says one expert. Otherwise, Cities has spent $77 million to enter the coal business and is laying out $150 million for its new corporate headquarters in Tulsa.

Such moves make Cities sound like one of those cash-rich oil companies, but it isn't. Along with the dramatic rise in oil and gas prices of the last two years, Cities' cash flow has grown 63%, to $1 billion. But the company has continued spending more than its cash flow, making up the difference with debt, which now stands at $1.2 billion, *vs.* $2.6 billion in equity.

Hence Waidelich's announcement last month that he wants to sell Cities' Arizona copper mines and its Tennessee industrial-chemicals complex to raise money for oil and gas exploration. The mining and chemicals have contributed little to Cities' earnings over the years, and the $500 million or so that Waidelich can get for them could be well spent on Cities' undeveloped lease acres in the U.S.

But Cities has had around 10 million acres in inventory for most of the last ten years and has never been able to do much with them. The company attracts no industry acclaim for its exploration capabilities.

Nor is it likely that Waidelich, who became presi-

dent in 1971 and chief executive in April, will light a fire under the company. A 30-year Cities Service veteran, Waidelich was part of the management team assembled 15 years ago by John L. Burns, an RCA executive brought in to enliven the company.

"Until that point, the company was known to be dead from the shoulders up," recalls investment banker Joseph Tovey of New York's Tovey and Co. "After that, it got a little more alive, but they still spend money without getting too much result for it. You have to remember, Cities Service started as a gas utility, and has never really lost the utility mentality. It has never been a notable risk-taker."

So why has Cities Service's stock been trading so smartly? The answer must lie in its undervalued assets.

There are those 10 million acres, and reserves of 318 million barrels of oil and 3.2 trillion cubic feet of gas. The utility, which sells gas in seven midwestern and western states, could be turned into a money machine.

John S. Herold Inc. estimates Cities Service's break-up asset value at $109 a share; analyst Russell Miller at Baltimore's T. Rowe Price Associates estimates $135 a share. That's either $9 billion or $11 billion of asset value, selling on the Big Board at 39½ for a total market value of $3.3 billion. Cities thus is selling at around 30% to 36% of asset value, when bankers will lend half and sometimes more of the value of an acquisition target's oil and gas in the ground. "With 56% institutional holdings, it's a pushover for a tender offer," says Tovey.

A financially astute purchaser would first have to spin off or sell the refinery, and then be able to realize the potential of the acreage and the producing assets. But there would be $500 million from the sale of the mines and industrial chemicals, and the Canadian properties—2.8 million lease acres and 17.6% interest in the Syncrude tar-sands project—could be sold north of the border for cash or the stock that is now held there.

Wall Street and Cities consider Nu-West's interest to be a Canadian attempt to buy Canadian assets. Cities has filed suit to try to block Nu-West. For the record, Nu-West calls its interest "an investment."

Mesa Petroleum's Chairman T. Boone Pickens Jr. also calls his holdings a "good investment" and refuses further comment. Odds may be less than even that $372 million (sales) Mesa will try for Cities Service, but stock market observers live in hope. Says H.B. Juengling, oil analyst at Dallas' Schneider, Bernet & Hickman: "Put Pickens in there with all those acres and all that cash, and it'd be like blowing a kiss to a sex fiend." Adds Rowe Price's Miller: "He'd have the stock up to $100, maybe even $150 within a couple of years." ■

Critics of cuts in federal programs—food stamps to business subsidies—warn of disaster. Don't take them too seriously.

When Uncle Sam stops paying

By Desiree French

After the Supreme Court's 1973 decision legalizing abortion, the federal government began to pay for these operations under its Medicaid program. Four years ago this changed. The Hyde amendment of Representative Henry Hyde (R–Ill.) sharply limited the use of federal money for abortions. Only if a mother's life is endangered, or if the applicant says she is a victim of rape or incest, could the U.S. government pick up the bill.

The Hyde amendment did its work. From an estimated 295,000 federally funded abortions in fiscal 1977, the number dropped to 3,985 in fiscal 1979, and rose only to 37,041 in fiscal 1980 as more women came to understand Hyde's regulations. But the number of abortions has not declined with the drop in federal funding. Planned Parenthood reports, for example, estimate abortions performed in the U.S. at 1,320,320 in 1977, 1,409,600 in 1978 and 1,500,000 in 1979—up smartly in spite of Hyde. Another 1.6 million abortions are projected for 1980.

The Reagan Administration today seeks to cut back on many other federally funded programs—food stamps, farm disaster loans, export subsidies. The partisans of such programs warn about dire consequences if subsidies are cut. Yet there seems to be no real evidence that the cut in federal abortion funding slashed the numbers of these operations. If the absence of federal funding doesn't stop abortions, why think that cutbacks in food stamps will cause people to starve or that there will be layoffs in the aircraft industry because of a slash in export subsidies?

Bill Hamilton, director of the pro-abortion group Planned Parenthood Federation of America in Washington, D.C., says even women on Medicaid find a way to pay for the operation. "In general, if they want an abortion, they'll find the money for it." Hamilton notes that some state and city governments pick up bills that the federal government won't pay. In some clinics women may be charged on ability to pay and some clinics provide interest-free loans. Planned Parenthood reports a 135% rise in private contributions to its abortion-help fund last year.

Eleven states and the District of Columbia fund abortions: Alaska, Colorado, Hawaii, Oregon, Michigan, Maryland, North Carolina, Washington, Massachusetts, California and New York. Clinic costs range from $165 in a D.C. clinic to an average of $240 in New York. Local and state governments paid for about 50,000 abortions in New York last year at a total of $12 million. A Planned Parenthood study said that 70% to 80% of poor women wanting abortions usually find the money. "Where they're getting the money from we don't know," says Rachael Gold at the Alan Guttmacher Institute in Washington, D.C. The point is: They're getting it without help from the feds. ■

Analysts may cluck and theorists shake their heads, but Occidental's Armand Hammer knows a good thing when he sees it.

Those simple, barefoot boys from Iowa Beef

By James Cook

FEW MAJOR COMPANIES have generated more scandal in recent years than Dakota City, Nebr.'s Iowa Beef Processors. The company's reputation was badly tarnished a decade ago by its collusion with organized crime, and since then it has been charged with everything from attempting to manipulate the live cattle and dressed beef markets to conspiring to create a monopoly.

Yet none of these charges can diminish the stunning success IBP has achieved in recent years and achieved on its own merit. In just 20 years, it has come from nowhere to oust giant Swift & Co. from first place not simply in beef-packing, but in meat-packing of any kind. It has revolutionized the beef-packing end of the business and may soon do the same for pork. With every year that passes it comes closer to dominating meat as thoroughly as AT&T does telephones, IBM computers or General Motors autos.

Achieving something like this in a new industry—data processing, for example—is fairly common; to do it in an old, some would say ailing, industry is an achievement of a different order, and no less spectacular.

IBP earned over $53 million last year, on sales of $4.6 billion, posting its tenth consecutive increase in earnings. Overall, it returned over 18% on its capital and 22.3% on its stockholders' equity, one of the best returns in the food business. In 1981's first half, despite heavy startup costs on a major new plant, earnings were up another 26% on a 9% increase in sales.

Shortly after it was announced that Occidental Petroleum was acquiring Iowa Beef, the *Wall Street Journal* quoted a number of disapproving analysts. Where's the synergy? one analyst asked. Was Armand Hammer just looking for fast earnings to throw against some expiring tax credits? Another analyst said the move didn't make strategic sense. Armand Hammer must have smiled when he read all that. Better than any security analyst, he knows a good thing when he sees it.

Iowa Beef's Bob Peterson

Occidental's Armand Hammer

Hammer and his associates aren't the only ones who have recognized what an efficient machine Iowa Beef has become. Both the United Food & Commercial Workers International Union, which represents 80% of the industry's 158,000 employees, and Iowa Congressman Neal Smith talk as if an IBP monopoly were already in place. Smith has been trying for some years now to push a bill through Congress that would, among other things, limit a packer's market share to 25%. The congressman, in effect, wants to pass a law against success. Yet neither the Justice Department nor the Department of Agriculture has so far been able to sustain the monopoly charge, any more than the Federal Trade Commission has the question of price fixing, although, at various times, all have tried.

There's no question, however, that IBP is a tough, hard-as-nails competitive organization unmellowed by success. In the early Seventies, IBP's cofounder and Chairman Currier J. Holman did not hesitate to deal with organized crime when the survival of the company was at stake, and in the end the courts found him and his company guilty of conspiring to bribe union and supermarket officials. But all that's presumably in the past. IBP's current president and chief executive, Robert L. Peterson, 48, a bluff, hefty man who started out with the company as a cattle buyer 20 years ago, maintains that anybody ever associated with organized crime has long since departed the company, but even he does not really apologize. The charges, Peterson says, "grew out of Iowa Beef's decision to do what it had to do to get boxed beef into the New York market."

What Currier Holman (and his original partner, Andrew D. Anderson) achieved in the development of Iowa Beef Processors was so original in its conception, so daring in its implementation and so single-minded in its realization as to rank with Alfred Sloan's reorganization of General Motors in the Twenties or the evolution of IBM's long-term marketing strategy in the Fifties.

Holman's strategy was simplicity itself. As Iowa Beef executives have always explained, "We are only out to be the lowest-cost producer in the industry." That is all, and that, truly, is everything.

Intelligently, IBP uses that low-cost position, not to maximize its short-term profits, but to generate the maximum possible growth. The result is an almost certain increase in market share. In its first decade or so, IBP's market share crept up from nothing in 1961, to 8% by 1973, and rose only to 8.9% by 1977. But in 1978 it rose to 11%, to 15% in 1979, to 15.8% in 1980, maybe 17% this year, with 20%

or so in prospect by 1982. Add in the carcasses IBP buys from others but does not itself kill, and its share of the U.S. steer and heifer slaughter moves close to 25%.

"We just took little bitty fractions all the way along the line," Peterson says, "and capitalized on them to get bigger"—fractional savings in slaughtering costs, in transportation costs, in by-product values. Nothing really new. Most of the things IBP did had been done before, only IBP did them better, and on a much larger scale.

Twenty years ago IBP started out with a $300,000 Small Business Administration loan and a better idea for running a meat-packing business. Until then, farmers had generally shipped their cattle to the big stockyards in such river cities as Kansas City, Omaha and Chicago, and sold them to the big meat-packers who had set up shop in the neighborhood. But cattle get nervous away from home, go off their feed and begin losing weight. The longer they're away from home, the more weight they lose. The shrink, as it's known in the trade, can range from 1 pound to 50. So the quicker you move an animal to slaughter, the more yield you'll have, the more weight.

IBP set about reducing the shrink, by building a spanking new slaughtering plant, not near a terminal stockyard but smack in the heart of the cattle country at Denison, Iowa. IBP's cattle buyers—the Iowa Boys Patrol, as its radio-equipped cars were called—began buying cattle directly from the local farmers, coordinating their purchases with the needs of the nearby plant. IBP paid the farmers roughly the same price they'd have received in Chicago or Kansas City, but saved them the transportation, yard costs and commissions. And IBP got better value for its money, because it could get its cattle to slaughter before the shrink got under way. "If you lose even a pound," Bob Peterson says, "not 10 pounds, but a pound—on today's market, that's $1 a head, and when we make only $5 or $6 a head out of the entire system, you've got to be careful."

The time was ripe for a change. Truck transport had emerged to provide the industry a transportation flexibility that railroads couldn't offer. The supermarket chains had come to dominate food retailing and began buying fresh meat in unprecedented quantities. And the business of fattening cattle in pens—feedlots—had begun to develop, on a large scale.

The initial response of the old-line producers was, of course, to resist, and then to try frantically and generally unsuccessfully to catch up. Today the rest of the beef industry has followed IBP into the cattle country. The terminal stockyards for beef have been largely abandoned, and so have the packing plants that once surrounded them. "They saw what the wave of the future was," says Lewie Anderson, head of the UFCW packinghouse division, "but they never really moved on the scale that they should have."

Meanwhile, IBP's Currier Holman rethought the whole slaughtering process. Instead of marching the cattle up to the fifth floor of a 50-year-old packing house, where skilled cattle butchers reduced the steer to a carcass, IBP began building large, single-story plants in which cattle were stunned, lifted by one hoof onto a moving chain, killed, halved and quartered, all on a moving dis-assembly line. The processing was done not by skilled butchers, but by a succession of relatively unskilled workers performing a number of elementary tasks—removing the hoofs or tail, slitting open the abdomen or halving a carcass, making a single cut with an electric saw.

The first plant Holman designed had a kill cost of $10 a head, *vs.* $15 to $20 for conventional plants. Slaughter on the assembly line was (and is) an incredibly labor-intensive business, but by breaking the work down into its simplest elements, IBP was able to replace the highly skilled and high-cost packing-house butcher with relatively low-cost assembly-line labor. So labor made part of the difference in cost. The rest came from the economies of scale offered by plants capable of killing 300,000 or 500,000 or a million cattle a year. IBP diligently pursued these scale economies ever after. The original Denison plant was designed to slaughter 500 cattle a day, but now slaughters 1,500. Dakota City started out at 1,600, now kills 3,500 and is headed for 4,000.

Some of the most notable economies came from making more efficient use of the drop—the by-products of the meat-packing process—tongues, livers, hearts for the export market, ingredients for sausage and pet food. Urban butchers shipped fat to tallowmakers for shortening, bone to the glue factories. But IBP with its large-scale plant could collect these products for conversion into edible animal feeds, gather the glands for use in pharmaceuticals, prepare the hides for tanning, even collect the gallstones for aphrodisiacs. "Our drop can get as high as $50 a head," Peterson says, "and our kill costs are less than that." A lot less, in fact—less than $20 a head. Multiply the difference by 6 million cattle slaughtered a year!

The Denison plant was just the beginning. A few years later, IBP launched an even more daring and innovative undertaking. It began extending the assembly-line process beyond slaughter and into the processing of beef itself. The usual procedure involved shipping carcasses in halves or quarters to the wholesaler, food chain or retail butcher, who then broke the carcass down into the various primal and subprimal cuts—loins, ribs, rounds and chucks; top sirloin, strip and tenderloin. IBP was prepared to do that itself, to take out the unneeded fat and bone, as well to wrap the primal cuts in cryovac film, box them and ship them to market. Putting the beef in a vacuum-packed plastic bag not only added 21 days to the normal 3-to-7-day shelf life of the carcass, it also sharply reduced the shrink that refrigeration exposed the carcasses to, and it expanded the beef packers' marketing area.

In boxed beef, a concept pioneered by Safeway and Armour, IBP found it necessary to reorganize the market, and that took some doing. The only market big enough to absorb the output of the great new plant Holman built at Dakota City, Nebr. was metropolitan New York, which consumes maybe a quarter of the nation's meat production. Though IBP's executives may have been barefoot boys from the cornfields of Iowa, they weren't born yesterday, and they could hardly have been unaware that getting boxed beef into the New York market was going to take some heavy payoffs in the right places. As one IBP executive admitted later, "It was a common practice that people paid off other people to do business in New York City."

For IBP's boxed beef to prevail, the supermarkets were going to have to scrap their traditional butchering methods and the unions were going to have to accept the fact that a lot of their member butchers would lose their jobs. The situation was especially touchy insofar as the union that controlled the New York market, the Amalgamated Meat Cutters—now the UFCW—was also the union that had just organized IBP's new Dakota City plant and gone out on strike. When that happened, the New York meatcutters had an excuse to lend their support and banned boxed beef from the New York market.

IBP was prepared to make a deal with New York mob associate Moe Steinman, a labor consultant who had influence both with the local meatcutters union and with the beef-buyers of

most of the New York supermarkets. If the Dakota City strike went on and IBP could not find a market for its beef, the company's very existence would be endangered. In April 1970 Steinman brought Holman together with union officials in New York, and the problem was solved. Holman was told, as he later confided to FORBES, that IBP could get the beef into New York if it agreed to settle the strike in Dakota City. The strike ended. IBP agreed to suspend a $4.5 million damage suit against the union and the union agreed to suspend its boycott of IBP's boxed beef.

But mediation has its price. Soon thereafter Steinman set up a sales agency known as CP Sales, into which IBP paid a cent on average for every pound of beef it sold in New York. The courts concluded that those funds were intended to bribe both union executives and supermarket buyers to let IBP's beef into New York City and found both Holman and IBP guilty of conspiracy to bribe union and supermarket officials.

Ever after, IBP was subject to rumors that somehow it had lost control of itself to the mob. CP Sales was taken over by Steinman's son-in-law, Walter Bodenstein, a lawyer who had attended IBP's meeting with the union, and CP Sales continued to collect commissions—over $5 million altogether—until the arrangement was finally dissolved in December 1977.

With New York in its pocket, IBP proceeded to open up one city after another—Boston, Washington, Kansas City. Chicago's independent supermarkets opened up in late 1979, so that today, only St. Louis, among major cities, remains closed to boxed beef. The result is that well over half of all beef now moves in boxes, and maybe 40% of those boxes are IBP's. In the next two or three years, most observers expect boxed beef's share to rise to over 80%.

But IBP's union problems weren't ended. The meat-packing industry at large had been governed by nationwide master agreements with the UFCW that had a common expiration date. IBP systematically demolished that policy and paid for its trouble in a series of bitter and often violent strikes—seven in the past ten years—and in the circumstances there's every likelihood there will be more when two current contracts expire next year. Says UFCW's Anderson: "Our difference with IBP wasn't boxed beef, but wages and benefits." IBP simply said it would not pay skilled butcher rates for assembly-line labor, and when it couldn't get such rates from the national, it got them from the UFCW locals, from other unions and from work forces that weren't organized at all.

IBP outwitted the union at every turn. When it built a new plant in Amarillo, Tex., for instance, it got the Teamsters in by recognizing the union during the construction phase. ("We were out-maneuvered," says Lewie Anderson. "We were waiting for the plant to go into production.")

Of the eleven plants IBP operates today, three are organized by the UFCW, two by the Teamsters, and six are not organized at all. According to one former IBP executive, Currier Holman used to say he was prepared to have one out of every three plants out on strike at any given time. The strategy worked.

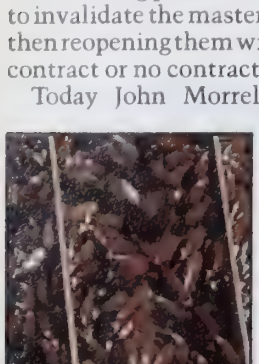
"People who blame the labor unions for this nation's sliding productivity," says IBP President Peterson, "are barking up the wrong tree. Put the blame where it really belongs—on management, which has, by default, forfeited its right to manage."

IBP's success put both the union and IBP's old-line competitors in a bind

Cutting beef on Iowa Beef's assembly line in Dakota City, Nebr.
Cut up the beef at the plant, box it, ship it and put all those high-cost urban butchers out of their jobs.

from which the union has yet to extricate itself. "They [the union] took the position," says Swift's President John Copeland, "that, given time, they would get everybody up to our rates. Not only did they fail, they couldn't even organize a lot of these companies, and their membership started dwindling." Only in the last few years has the rest of the industry found a way out—closing plants down long enough to invalidate the master agreement and then reopening them with either a local contract or no contract at all.

Today John Morrell & Co. pays $10.02 an hour at its Sioux Falls, S.D. beef plant, *vs.* $8.20 for IBP at Dakota City, and fringe benefits—vacation pay, pensions—can widen the gap even more. In closing two plants last year, Armour complained that, at $16 an hour, its average wage and fringe benefit costs were 40% to 60% higher than costs at companies like IBP and MBPXL. Ironically, the UFCW master agreements discouraged the old-line packers from moving into boxed beef and gave IBP an additional advantage. "When you're at a noncompetitive cost," Copeland says, "the more you do to the animal, the more noncompetitive you get."



Cattle get nervous away from home, go off their feed, begin losing weight. So the quicker you move an animal to slaughter the more yield you'll have, the more weight. "We just took little bitty fractions all the way along the line," IBP's President Bob Peterson says, "and capitalized on them to get bigger."

The result was inevitable. Over the Seventies at least 350 meat-packing firms closed down. These days everybody's trying to get out of the business—closing down plants, merging, selling out, palming the business off on somebody else. In the past two or three years Needham has gone out of business, Spencer Foods has sold out to Land O' Lakes, and Illini Beef sold its beef plant to Dubuque Packing. Wilson has gone out of beef slaughter entirely, and so have Hormel and Cudahy. Armour and Morrell have only two or three beef plants remaining, and their conglomerate parents are throwing their meat-packing subsidiaries one by one to the wolves. Esmark sold most of its Swift holdings to the public last April (after absorbing $26 million in closing costs and a $66 million writedown); LTV plans to spin Wilson and its $92 million in debt and $11 million in 1980 losses off to its own stockholders; General Host is planning to sell its Cudahy fresh-meat business to a group of employees. Even Montfort of Colorado, one of the pioneers in reshaping the industry, lost $24 million in fiscal 1980 and is fighting to stay afloat.

Peterson insists that labor isn't the only problem. "It's not how much you pay per hour," he says, "it's how much it costs you per hour to get something done. The question is: How many picnics do you get deboned in an hour? You give me just 5% more yield, and I'll make you so much more money than the guy that saves 20% on labor, it'll scare you to death." And when you've got both yield and labor costs as IBP has? "Why, then we're really coming, aren't we?"

IBP did not use its hard-won cost advantage to maximize its profits. Instead, it began to use it to increase its control of both the market and its cattle supply. Because of its cost position, IBP's cattle buyers have been able to pay higher prices for the available cattle—as much as a quarter of a cent a pound, or $20 a head. This may not matter so much when cattle are in abundance, but when they are short, as they have been since the cattle cycle turned downward in the mid-Seventies, it puts IBP's higher-cost competitors in a bind. The problem becomes even more acute because the industry's big packing plants need a fairly high level of operation to cover their fixed costs. IBP has been able to pay to keep its plants operating full-tilt as the competition has not always been able to do.

At the same time, IBP has been able to strengthen its grip on the market by skillfully exploiting its cost advantage in the form of lower prices. In the mid-Seventies, when it was trying to move boxed beef into a reluctant market, IBP was advertising that it could process and deliver boxed beef to a retail store for $23 to $36 a head less than the retailer could buy and process a carcass for himself. And as IBP's boxed beef made its way in the market, the gains came mainly at the expense of competitors that had previously sold carcass beef.

Which is why IBP is as immune to recession as it is to swings in the cattle cycle or changes in beef consumption. Its growth is founded not on any growth in the market, but on the decimation of its competitors, on forcing the big packers out of beef and the local breakers out of business.

Until recently IBP hadn't had much success in persuading the chains to abandon the carcass-breaking facilities they already had. You don't scrap a multimillion-dollar plant without plenty of reason. But in the last few years, as the costs of beef and transportation have gone up, the stakes have risen, and more and more chains have begun closing their breaking plants and turning to IBP and its competitors for boxed beef instead. Grand Union is pulling out, Stop & Shop has already done so. Safeway has shut down its central cutting plant in Richmond, Calif. Albertson's uses boxed beef almost exclusively. Among the big chains only Kroger and Winn-Dixie are still committed to carcasses.

But once those breaking facilities and the meatcutters that manned them are gone, the chains become locked into their boxed-beef suppliers. Packers who once sold carcass beef to the retail chains can't afford the capital investment involved in building breaking and boxing facilities themselves, so they've either gone out of business or begun selling their premium carcasses to other breakers and boxers. Thus Dubuque Packing—one of the biggest U.S. slaughterers—has already become an important IBP supplier.

IBP continues to up the ante by building increasingly large-volume capital-intensive plants. IBP has four such plants in operation—all with capacities of 500,000 head or more a year—at Dakota City, Emporia, Kans., Amarillo and Pasco, Wash.—and it's currently completing a huge $100 million, 1.2 million-head plant in Finney County, Kans., the largest boxed beef plant in the world. This plant represents IBP's long-planned, long-delayed assault on the Los Angeles market, the U.S.'s second-largest meat market—and the only major market in which IBP has not yet positioned itself. IBP took over the Northwest with the 1976 acquisition of beef plants in Washington and Idaho. But until now, southern California's meat requirements have been met by local packers in the Vernon Street area of Los Angeles, who have lived off cattle in California and nearby Arizona and who mainly produce carcass beef for breakers like Safeway. But once Finney gets into operation, IBP expects to be able to deliver beef at a cost competitive with local packing-houses—despite

the transportation cost disadvantage.

After California, what? Peterson is coy on the subject, but he maintains IBP is still far from exploiting the full potential of beef, either in the economies it can wrest from its manufacturing process or in new areas of the beef business it can bull its way into—the eastern Cornbelt seems one possibility. "We see no end of growth opportunities," Peterson says. Nor is there likely to be one, so long as there are competitors for IBP to knock off.

The way things are going, the only sure survivors among the major national beef-packers promise to be those who have already set out to duplicate what IBP has been doing for years: Cargill's flourishing MBPXL affiliate; Swift Independent in its new stripped-down, independent avatar; and Spencer Beef with the financial backing of the Land O' Lakes farm cooperative. For the others, the future remains pretty uncertain.

Meanwhile, IBP is preparing for what could be an even more radical venture, an assault upon the $16 billion pork business, once the Finney plant moves into the black, with plants that will bring the same efficiency to pork that IBP brought to beef. Through a company called Madison Foods, IBP already does contract pork-slaughtering for Armour, but the old-line pork producers are terrified at what IBP could do if it really pushes into their market.

Pork is a different business from beef, however. It's less labor-intensive, and some fresh pork is already shipped boxed, with the hams, pork bellies and so on removed for further processing. So the processing economies shouldn't be so pronounced. And because of health problems, hogs can't be raised in the quantities necessary for slaughter on the scale IBP has attempted in beef, though IBP could conceivably build a massive, centrally located plant and base its supplies not on feedlots but on thousands of small farms in Iowa, Illinois and Minnesota. IBP is confident that it can do so, and in so doing, revolutionize the pork industry just as it revolutionized beef. In the circumstances, it would be a rash soothsayer who would predict IBP couldn't do it. "We'll come big," Peterson has been known to say, "with a couple of hundred-million-dollar plants." Outside of Madison and a plant Hormel is building in Austin, Minn., there are really no large, efficient pork plants in existence.

Again, IBP has no intention of moving in and developing a new market. As always, it plans to position itself on the ruins of the old. Most pork plants produce 60% processed meats—ham, bacon and so on—and 30% pork. IBP intends to reverse the proportions, sell some of its output to processors, but the bulk of its production to pork producers that currently slaughter and process their own fresh pork.

Peterson's hope is that IBP's cost advantages will be so overwhelming that it will be able to deliver pork to the packers more cheaply than they can do for themselves. In a sense, it's custom slaughter on a massive scale—the Madison operation writ large—only IBP would provide its own hogs and market its own output to packers, supermarkets and other wholesale pork consumers.

"The big danger [to competitors]," says Swift's John Copeland, "is that they will come in and negotiate lower labor costs." In short, a replay of the situation in beef. Peterson denies that labor cost is central to IBP's strategy. But he also says, "The old master-agreement concept really isn't going to work." The UFCW has no intention of abandoning the master agreement, however, and, having gained some experience in beef, thinks it'll be better prepared to fight back this time. "A reaffirmation of a national bargaining strategy is the union's only possible means for avoiding the disaster experienced in beef," says Anderson. "There's some indication they may not want to fight us in pork. They're getting a little big to be waging war with everyone all the time."

The reason IBP is as immune to recession as it is to swings in the cattle cycle or changes in beef consumption is that its growth is founded not on any growth in its market, but on the decimation of its competitors, on forcing the big meat-packers out of beef and the local breakers out of business.

With pork in its pocket, Peterson expects IBP to move into portion control—the marketing of prepackaged retail-style cuts of beef, steaks and roasts, probably flash-frozen or even partially precooked. MBPXL has already begun marketing such a product. But Peterson thinks portion control is at least eight years away and probably longer. In the circumstances, Peterson doesn't worry much about where IBP is going to find the means of maintaining the growth it has racked up over the past 20 years.

Given its strength, it was inevitable that eventually somebody would try to take over the company. A few years ago, Los Angeles investor David H. Murdock acquired a 19% interest in IBP through his privately owned Pacific Holding Corp., and in late 1978 he actually made an offer to acquire the rest of IBP's outstanding stock. That failed when soaring interest costs pushed Murdock's financing out of reach.

But if Murdock couldn't afford to buy in, he could eventually arrange to trade up, and that's what he did last month, working out a deal with his Los Angeles neighbor, Dr. Armand Hammer. If the stockholders of both companies approve, Hammer's Occidental Petroleum will acquire Iowa Beef for a package of common and nonconvertible preferred. Present value: $77 a share, *vs.* a recent price of $57, and the $30 Murdock originally offered to pay for the company.

For Occidental, IBP offers a host of intriguing possibilities not the least of which is the push Hammer could give to IBP's ambitions in the international market. It dramatically widens the domestic base of an international company perilously dependent on income from places like Libya and Peru. Perhaps most obvious of all, it gives Occidental control of one of the U.S.' most dazzling growth companies at what in other industries might seem bargain prices.

For Iowa Beef, the advantages are far less clear. An Occidental merger provides protection from a less congenial predator and, of course, it builds in some more of IBP's unrealized stock market value.

If the merger with Oxy goes through, IBP will be what it always has been: an autonomous operation headquartered in Dakota City, Nebr.

Nearly everyone—FORBES included—scoffed when Armand Hammer went into the oil business less than a quarter of a century ago. Nobody's scoffing now. By the same token, you can't put this deal in the same questionable class as Exxon's move into office machines or Mobil's move into retailing. It's a good bet that the analysts who speak patronizingly about his purchase of Iowa Beef will be lauding a shrewd move in the not so distant future. ■

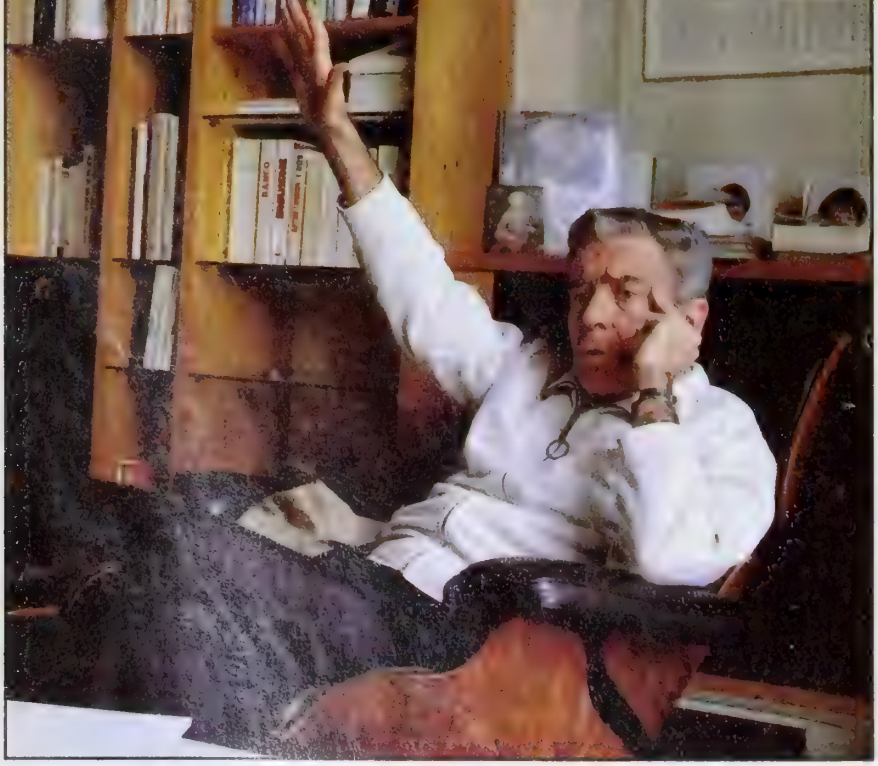
Jean-Jacques Servan-Schreiber says he is no longer unhappy about how his new book has been translated into English. Readers with a sense of history, however, will be offended for other reasons.

A computer in every hut?

By Lawrence Minard

"THIS IS FANTASTIC! Incredible!" fumed Jean-Jacques Servan-Schreiber, waving a set of yellow-bound uncorrected galley proofs in the air as he sat in the book-lined study of his sprawling apartment on the Boulevard de Courcelles, in Paris' fashionable 8th arrondissement. In his hand were proofs of the English translation of his latest book, *Le Défi Mondial (The World Challenge)*, soon to be published in the U.S. by Simon & Schuster. The ordinarily calm Servan-Schreiber was furious in fluent English as he spoke of his U.S. publisher. "They have totally distorted my original book," he said. "It [the advance proofs] is melodramatic and repetitive, a terrible translation."

It's rare enough to find an author trashing anything with his name on it. It's rarer still to fire off by Telex, as Servan-Schreiber did a few days later, a stiff warning to some 30 American critics who had received advanc copies. "The bound galleys of m book *The World Challenge*, sent to yo last week by the publisher, are an in accurate and incomplete translation, Servan-Schreiber's Telex messag read. "Please be kind enough to dis card it, and alert anyone to whom yo may have passed it on."



Servan-Schreiber in his Paris study
Utopian conclusions based on naive assumptions.

Servan-Schreiber, now 56, has led life crowded with incident, to put mildly. At age 24, he was editori writer for the prestigious Paris daily *L Monde*. At age 29, he founded th French news magazine *L'Express*. A 33, a lieutenant in the French arm he was court-martialed (and subs quently acquitted) for urging indepe dence for Algeria. In 1974 he wa named Minister for Reform by Valé Giscard d'Estaing and lasted thre weeks. A leading member of France social-democratic Parti Radical, Se van-Schreiber was sacked for urgin the French military to give up atm spheric nuclear weapons tests.

Americans will remember Servar Schreiber best, though, for his bes selling book *The American Challeng* published in 1968, which urged Eu rope to imitate American manageri techniques in order to catch up with seemingly omnipotent Americ Now, in *The World Challenge*, he ad dresses such weighty issues as petr dollars, Third World poverty, the sta nating West and the microcomput revolution. To Servan-Schreiber th world challenge comes down to thi "Are we [the industrialized nation going to crumble into crisis and pa ralysis? Or are we going to invent common program that will put all our common strengths together for new world development program tha will make the Third World a trad partner rich enough to buy thing from the West and the oil countries Will we educate and equip the Thir World with the most advanced tech nology we have, primarily comput science? Or will we just keep fightin each other for a shrinking market an all go down the drain?"

As it stands in galley proofs—an as it turns out in final pages, whic differ from the galleys in no signif cant way—the U.S. edition is likely t offend a good many readers, but no perhaps, for the reasons Servar Schreiber was offended. In style, it an irritating blend of gee-whiz an conspiratorial oh-my-God. In conten it is a hash of good intentions, naiv assumptions and hard questions una dressed. The book in essence argue that the world is about to collaps The Third World is broke. The Firs World countries can sell only to eac

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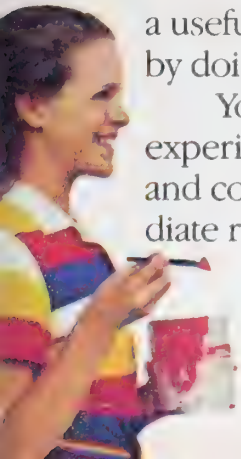
it even helps give them a better un-
derstanding of themselves and
their friends.

And every parent will appreci-
ate the fact that for all the enrich-
ment it provides, this camera
is inexpensive.

There is, however,
one more reason to
watch your kids de-
velop with The
Button. If you're on
your best behavior,
they just might let you borrow it.



The Button from Polaroid.
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What Patriot does is impressive enough. B how it gets the job done represents a truly imaginative use of advanced electronic techno For example, the single, multifunction radar shown above takes the place of several separat radars in current air defense systems. At computer speeds it searches the sky, detects many individual aircraft, identifies each of them, trac them, then guides multiple defending missiles,

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other. OPEC really wants to help but doesn't know how. So, the West *must* develop the Third World as it developed Europe and Japan after World War II.

"The West [reads *The World Challenge*] will fail to rediscover its own path of economic growth, it will suffocate and will see its social order fall apart, unless it is rejuvenated by a sudden burst of development in Third World countries."

To get that sudden burst, says Servan-Schreiber, the West (the "enemy" in the book) must transfer its computer science knowhow to the poor countries. Once the microcomputer revolution has been transplanted to fertile Third World soil, asserts *The World Challenge*, then the poor countries will quickly turn into lucrative trading partners for Western industry.

"Computerized infrastructures for the Third World," says the book, "could make it possible for whole stages of [industrial] development to be bypassed... make it possible to equalize the North and the South, not in 150 years but within a generation."

Readers with some notion of how hard it would be to computerize the infrastructure of the South Bronx, let alone South Yemen, will think Servan-Schreiber's thesis highly theoretical, to say the least. But nowhere is *The World Challenge* more questionable than in its claim that OPEC is really an ally of the Third World. The book is littered with such phrases as "OPEC and its new allies, the LDCs," and "... the alliance between OPEC and the Third World was real."

Is Servan-Schreiber aware that last year, while OPEC was running up a $158 billion trade surplus, the nonoil Third World was amassing a $65 billion trade deficit? He is aware but interprets the numbers to fit his thesis: "The blame is not on OPEC," he told FORBES. "OPEC just accelerated something that was inevitable. The price of oil would have gone up in any case, OPEC or no OPEC." The chief villain, as argued in advance copies of *The World Challenge*, is America. "Because of their lack of imagination, courage and above all will, each of the great industrial democracies now finds its social fabric under pressure because of the oil crisis. The chief cause is neither Soviet policy nor OPEC—but the absence of a coherent American foreign policy."

It's all our fault. Where have we heard that before? Oh, yes: The Ugly American. Servan-Schreiber's heroes? OPEC, or at least the Saudis and Kuwaitis. He is impressed by OPEC's 1980 Taif Report (FORBES, *Jan. 19*), drafted by Saudi Arabia's Sheikh Zaki Yamani. To many an American eye, the Taif Report is a blandly worded design for extortionate oil price increases, rationalized by passionately stated concern for the poor Third World. To Servan-Schreiber, this report is gospel, proving that the Arabs will invest their oil surpluses in computerizing the Third World—the key to everyone's economic salvation:

"The West cannot recover from its economic crisis unless it equips and develops the Third World with the most advanced technology. That is what the Arabian Gulf *[sic]* demands in the spirit of [the Taif Report]." Thus we read of Sheikh Yamani who, on the eve of ratifying the Taif Report, "... relaxes among family and friends to prepare for the most ambitious battle in almost 20 years with the ever-present, multifaceted, domineering enemy—the West."

The World Challenge, *in short, falls into one of the most obvious intellectual traps of all, technological determinism: Give someone—anyone—a machine and he will prosper.*

FORBES supposed that it was for such ridiculous passages that Servan-Schreiber had telexed around the U.S., asking reviewers to "discard" their review copies. How, exactly, he was asked, had Simon & Schuster distorted his book?

"The distortion," he replied in a voice far more reasonable than his book's, "is to have put all the emphasis from beginning to end on OPEC, OPEC, OPEC. Do you know what they [Simon & Schuster] wanted to use for the subtitle? 'The Revelation of the Secret Plot of OPEC Against the West.' That is absurd! It makes the Arabs look like masters of the world. What I really say is that OPEC is only one of the world powers. The book is really about the Third World and the computer revolution. OPEC is only my starting point."

To which Simon & Schuster's Editor-in-Chief Michael Korda calmly replies: "If this isn't a book about OPEC, I don't know what the hell it is a book about!" Korda will publish *The World Challenge* this month in substantially the same shape as the galleys with—for no clear reason, given the fuss made—Servan-Schreiber's blessing.

If the author and publisher are now both happy, few non-OPEC readers will be. The book is teeming with utopian conclusions based on naive assumptions.

Take the assumption that OPEC is the Third World's friend. First, as its recent Geneva meeting showed, there is no cohesive OPEC. There is Saudi Arabia with around 60 years' reserves and Algeria with less than 15 years' reserves, each with diametrically opposed views on what the price of oil should be. More ominously there are Iran and Iraq, at each other's throats.

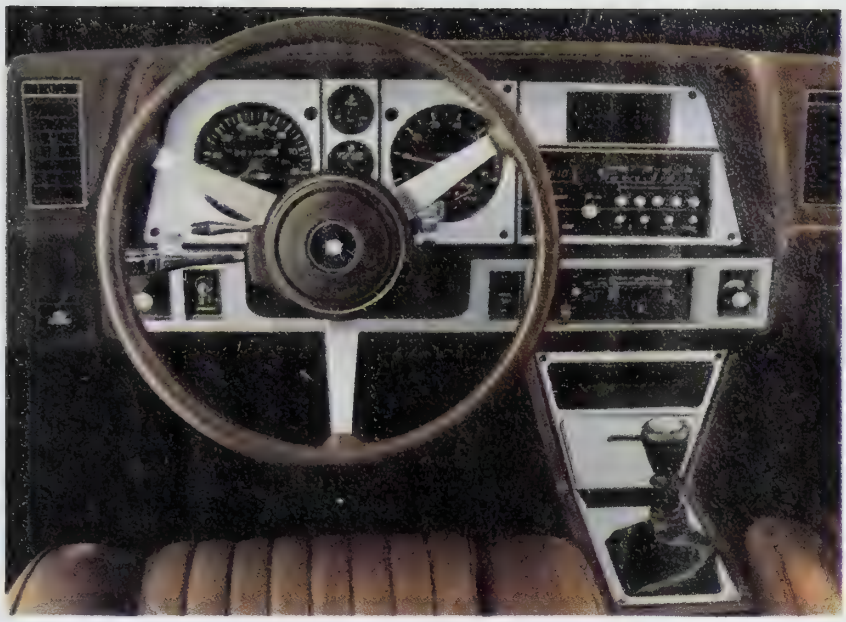
Does it make sense to talk of "OPEC and its new allies, the LDCs"? Non-OPEC Morocco would hardly call Algeria its ally. Neither Chad nor Uganda is an ally of Libya, which now occupies part of the former and tried to occupy the latter. The point is, it is naive and misleading to talk, as Servan-Schreiber does, of solid blocks of allied countries that are in fact divided internally as well as externally.

No one denies the latent power of the microcomputer revolution nor the pressing poverty of the Third World. But how do you "transfer" technology to people who insist on trying to regulate their society in accordance with theology or to people whose basic life is still tribal? To brutal dictatorships like Qaddafi's or Kim Il Sung's?

The facts, Servan-Schreiber to the contrary, suggest that when a less-developed society is ready for technology, it gets it. Japan is only one example. South Korea, Brazil, Mexico and Taiwan are more recent ones. As for countries like India—that, in the name of socialism, mess up even older forms of technology like steel and autos—what makes anyone think they will be effective in handling the chip?

The World Challenge, in short, falls into one of the most obvious intellectual traps of all, technological determinism: Give someone—anyone—a machine and an instruction manual, and he will prosper. An Apple II in every hut and hovel. But economic development does not seem to work quite so simply. It is a complex, *historical* tangle of politics, philosophy, religion, armies, climate, technology and social discipline, among other things, that explains regional income differentials, not simply machines and education programs.

In short, the book is not worth the fuss being made over it. It will even do the Third World more harm than good. It will simply confirm the poorer countries in their current excuse that they are "victims of colonialism." What they need is their houses in order so that—unlike, say, Iran—they can then make use of the revolutionary technology that no one is truly withholding from them. ■



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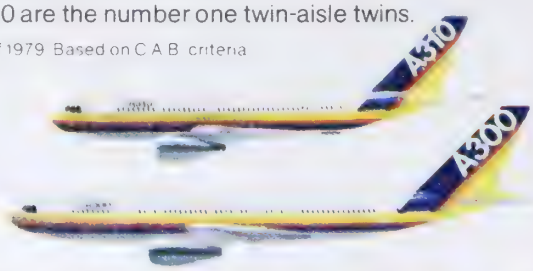
*Fourth quarter of 1979. Based on C.A.B. criteria



Airbus Industrie

Perhaps more than Soviet tanks, inflation is the enemy of freedom. Who first suggested that? Get ready for a surprise.

An open letter to the politicians

TO MOST PEOPLE, INCLUDING those who should know better, the very phrase "Keynesianism" means deficit financing and stimulatory fiscal policies. But these assorted liberals, expansionists and big government advocates ought to find themselves another banner to fight under. Why? Read on:

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily;* and, while the process impoverishes many, it actually enriches some.

"The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become [obscene] 'profiteers,' who are the object of the hatred of the [middle class] whom the inflation has impoverished, not less than the [working people].

"As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. . . .

"Governments, being many of them at this moment reckless in their methods as well as weak, seek to direct on to a class known as 'profiteers'

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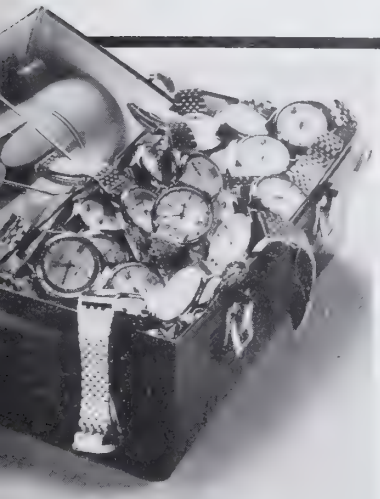

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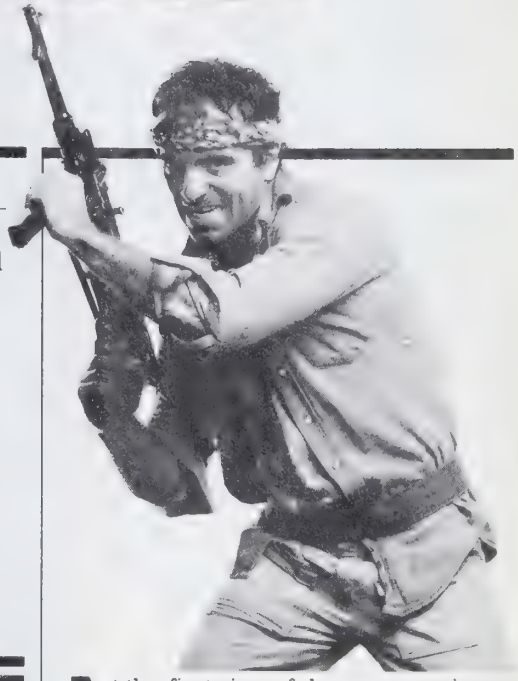

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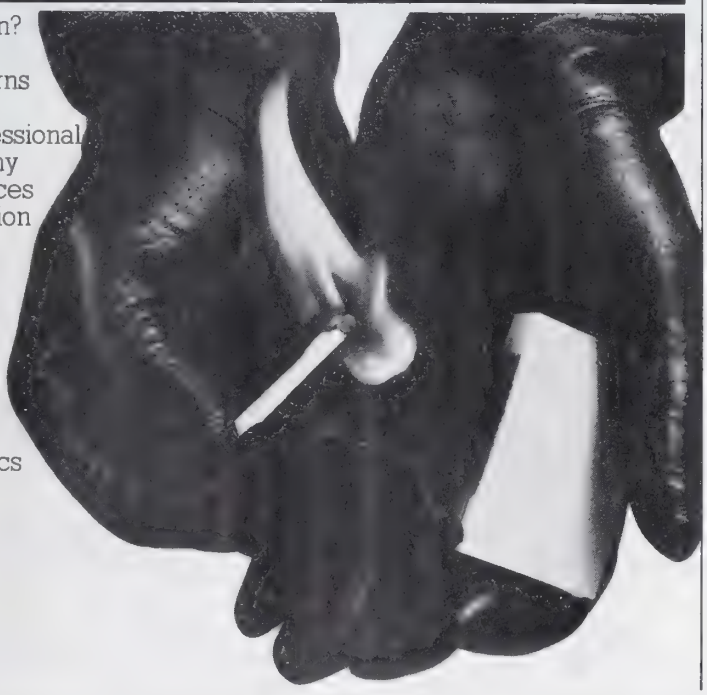

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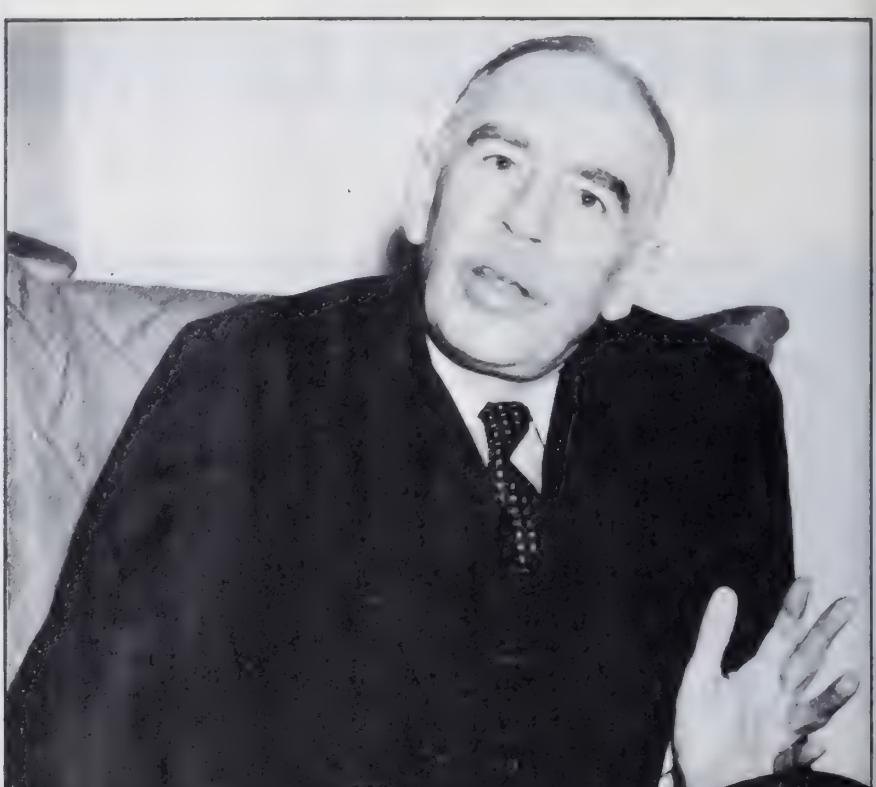
the popular indignation against the more obvious consequences of their [own] vicious methods. These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for [inventory] or owns property and plant inevitably makes profits.

"By directing hatred against this class, therefore, the governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these governments are fast rendering impossible a continuance of the social and economic order. . . . But they have no plan for replacing it."

This essay was written in 1919. The author? No diehard conservative but none other than the famous English economist John Maynard Keynes. Many regard Keynes as a villain responsible for much of today's inflation. Yet this essay shows that a concern with inflation was at least as central to Keynes' thinking as his well-known preoccupation with stimulating demand in a depressed economy. Far from encouraging government spending and deficit spending under normal circumstances, Keynes clearly regarded these things as pernicious and he had no time for politicians who take inflation as an easy way out. People like Teddy Kennedy who regard inflation as preferable to cuts in welfare spending would do well to wrap themselves in another robe than that of Keynes. A more powerful diatribe against vote-buying politicians who "debauch the currency" is hard to imagine. Our own politicians would do well to heed Keynes' warning against inflationary policies that advance "the fatal process which the subtle mind of Lenin had consciously conceived."

We reprinted Keynes' original essay unchanged but for minor cutting and substitution for a few terms that gave it an obsolete ring; we wanted to emphasize the contemporary relevance of Keynes' thinking. ■



John Maynard Keynes
"Profiteers are a consequence and not a cause of rising prices."

In the long run, inflation will destroy our society. In the short run, many are profiting from it. That's why it's so hard to stop.

We have met the profiteers, and they are us

By William Baldwin

WHY IS IT SO HARD to do something about inflation? Because, says Alan S. Blinder, a Princeton professor and participant in the National Bureau of Economic Research's Project on Inflation, for many of us it's not such a bad thing over the short run. "The loser blames inflation but the winner never credits inflation," he says.

Who are these inflation winners? One of the biggest, as Keynes pointed out, is the government. Even if Congress temporarily relieves bracket creep with another tax "cut," the U.S. Treasury will continue to profit, since it is the largest debtor in the land. Thanks to inflation, Uncle Sam can pay off a 30-year-old bond at 30 cents on the dollar or less. In fiscal 1980 the Treasury paid $40.7 billion in interest, not counting the money it paid to itself through the Federal Reserve

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Princeton Economics Professor Alan S. Blinder

Surprise: The federal government is running a surplus. Just count the hidden profit from paying off bondholders in inflated dollars.

banks and various trust funds. But during the year, holders of Treasury securities lost about $63 billion in buying power.

So great is this inflation gain that the government is, ironically, running a surplus. Explains Blinder: "When there's inflation and therefore high nominal interest rates, a lot of the interest payment—the preponderance—is not interest at all, but a repayment of principal." At the end of the year the owner of a Treasury bond has a fat pile of interest but a commensurate loss of purchasing power. The shrinkage in the bond's true value represents a hidden pay-down, in real terms, of the outstanding debt. That $63 billion loss in bondholders' purchasing power was the government's inflation profit, and it was more than enough to cover the government's reported $60 billion deficit for the year. By fiscal 1982 the inflation profit should be large enough to erase not only the reported deficit, projected at $38 billion, but another $17 billion in off-budget items as well.

For an example of a classic Keynesian profiteer who benefits, willy-nilly, from inflation, look at the typical middle-class homeowner—not just the lucky stiff who still has a 7% mortgage, but someone with a 16% mortgage. At today's 10% inflation rate, even he can come out ahead after taxes because the interest is fully deductible. The Internal Revenue Code's failure to count real rather than nominal interest means the homeowner can, in effect, deduct principal, explains Blinder. And the offsetting capital gain realized on the sale of a house after a period of inflation is almost never taxed. In short, he says, the already generous tax subsidies to homeowners become downright lucrative when inflation distorts the figures.

Corporations complain that rising costs put pressure on profit margins. But they, too, can still benefit from inflation. One of inflation's side effects is to lubricate the marketplace. "It very often helps the adjustment of relative prices," says Blinder. "Some sorts of prices and, especially, wages tend to be sticky on the downside. Inflation is a way to erode those in real terms."

Example: the wages of college professors, which he says have suffered a 30%-to-40% real decline over the past decade. Professor Blinder is not whining. "There are too many of us," he says. "An efficient use of resources calls for lower wages for people like us. That would be very hard to accomplish in an inflation-free environment." Corporate employers use inflation to cut the salaries of underachievers by passing them over on a raise. Without inflation they would have the harder task of confronting the issue squarely.

Business also benefits as inflation slowly repeals vexatious legislation that would be hard to repeal otherwise. Consider the minimum wage, which Blinder says "hurts the most disadvantaged people by keeping them out of work." A cut in the minimum wage would have to clear both houses of Congress and be signed into law—a formidable task. But with inflation all the opponents must do is prevent enactment of an increase. The U.S. Chamber of Commerce has had scant success with its proposal to create a lower minimum wage for teenagers. Now it's putting its efforts into merely blocking further increases in the existing $3.35-an-hour rate. Two years of 10% inflation would amount to a 17.4% cut.

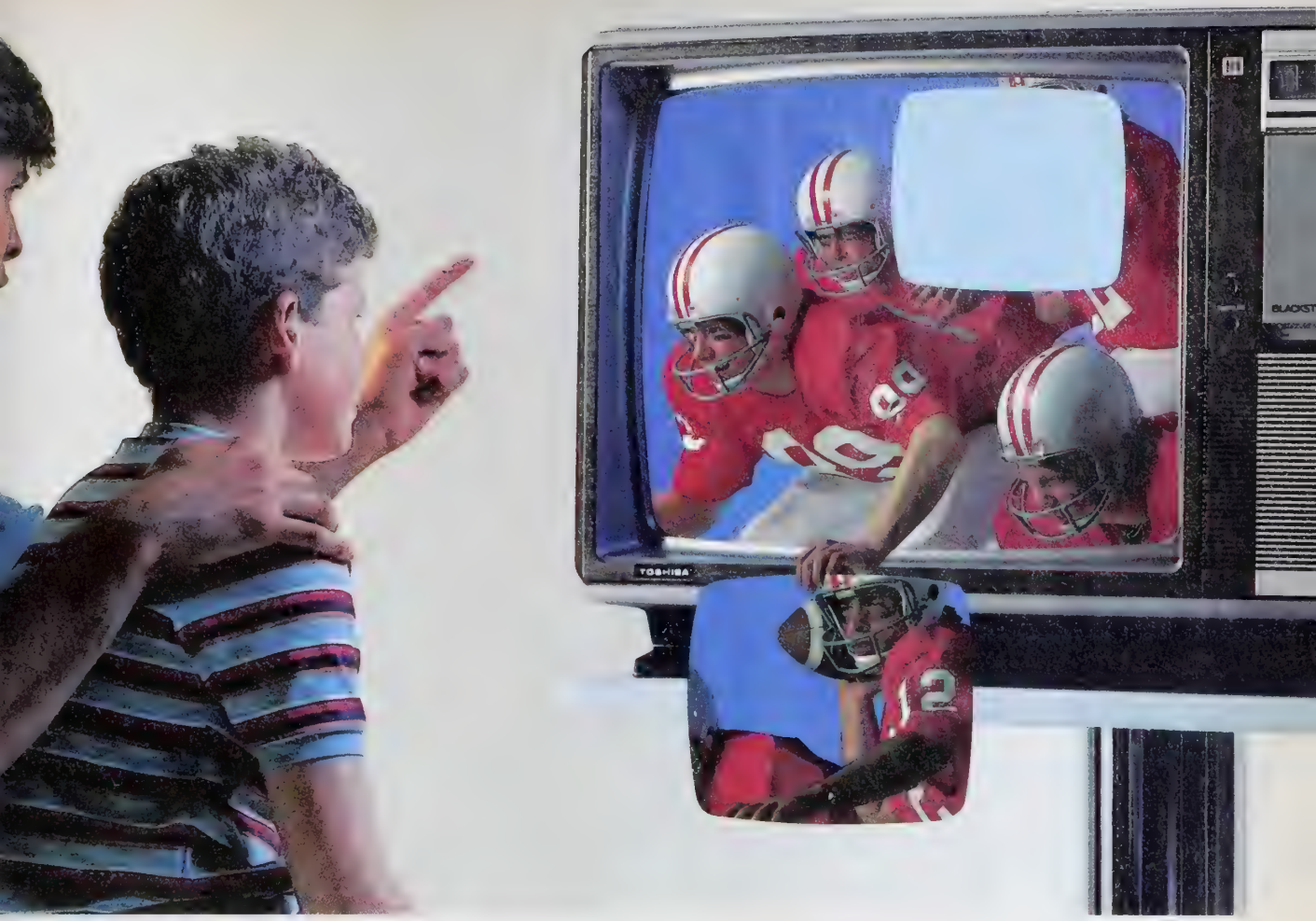
Corporations complain that inflation drives up their true tax rates and inhibits investment. It does, although some of this is a self-inflicted wound, such as the failure to adopt last-in-first-out accounting (FORBES, *Oct. 13, 1980*). Yet inflation can also generate negative tax rates on corporate investment, says Blinder.

The operative word is "can," since the tax rate depends on whether the investment is debt-financed—and on who holds the debt. If AT&T has to pay 15% interest in an era of 10% inflation, its real pretax interest rate is 5% and its aftertax cost is –2.5% or so. If the bond is owned by an individual, he pays in artificially high taxes what AT&T gains in artificially low taxes. But if the bond is held by a pension fund, Blinder points out, it gets "a tremendous kick" because pension funds pay no income tax. Their beneficiaries ultimately do, but only after a delay of up to 30 or 40 years. Taxes on business investment, in other words, would be lower in this inflationary era if corporate pension funds were fatter and loaded up with corporate bonds.

Inflation also levies a tax, practically the only one, on criminals. "It's a tax on the holding of cash," says Blinder. Mafiosi and other tax evaders have a disproportionate cash hoard, he says, so inflation transfers wealth from them to the rest of us. Holders of the $50 billion outstanding in $100 bills, for example, are losing almost $5 billion a year in purchasing power. "And how often have you seen a $100 bill?"

Sounds wonderful, doesn't it? But Blinder is no fan of inflation. His point is simply this: Inflation is deeply rooted in the economy because so many people and institutions benefit from it without knowing it.

In the short run, that is. Over the long run? Remember Keynes' warning: "The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." ■



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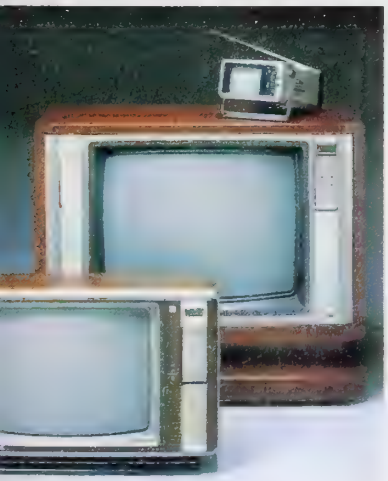

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	Net Sales (Millions)	Earnings Continuing Operations
1st Quarter 1981	$ 487.3	$20.8
1st Quarter 1980*	417.2	13.3
Year 1980*	1,591.1	76.0
Year 1979*	1,516.6	54.9

*Assumes AL Steel divested. Wilkinson Sword and Schenuit acquired before 1979.

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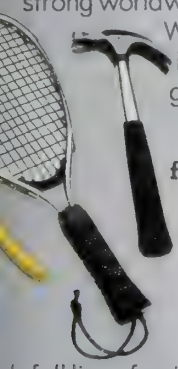

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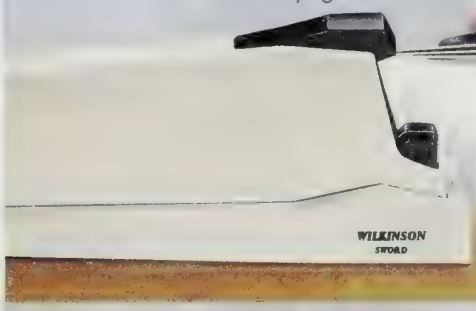

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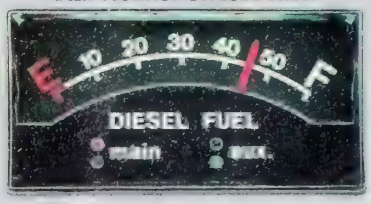

Bank of America's earnings are down. But its new boss aims to restore profit growth by strategies great and small.

Variable rates and paper clips

By Michael Kolbenschlag

THERE'S A WORLD OF difference between $114 billion (assets) Bank of America and the local savings and loan association. Yet the big San Francisco-based bank and Anytown, U.S.A.'s typical, troubled mortgage-lender face similar problems in the new environment of volatile, soaring interest rates.

Both have lingering amounts of long-term loans made in the past at fixed rates of interest and both have been forced in the last two years to pay out higher interest to attract deposits. Thus, interest received on the old mortgages amounts to less each month than interest paid out on the deposits. In one case the result has been losses so large as to imperil over 100 S&Ls. In the other case, losses have been large enough to trim even vast BofA's current earnings.

Bank of America earnings fell 19.2% in the first quarter of 1981, are expected to be down again in the second quarter and would have fallen in the fourth quarter of 1980 but for exceptional, one-time gains.

What happened to BofA is that its mountain of 5.25% passbook savings and other low-rate time deposits evaporated from $15 billion in 1977 to $8 billion today under the pull of higher interest offered by the money funds and by BofA itself in short-term certificates of deposit. But while the bank was paying up to 15.7% on deposits, it was receiving an average of 10.7% on its $15 billion portfolio of mortgage loans and 13% on its $9.5 billion of consumer loans, like three- and four-year auto loans.

At one point in 1980 this "mismatching," as the bankers call it, left BofA with $8 billion in fixed-rate loans being funded with deposits on which interest rates were rising.

It was this situation that confronted 42-year-old Samuel H. Armacost when he took over as BofA's president in April, succeeding A.W. (Tom) Clausen, who had led the bank for the previous 11 years. "I didn't create the environment, but my job is to manage this institution through it," says Armacost, referring not to Clausen's reign but to the environment confronting all financial institutions today. "I am not going to lay back and let the waves wash over us."

So Armacost, a Stanford M.B.A. who rose from credit trainee to chief executive in only 20 years, set about equipping BofA with new policies to fit the times.

First, Bank of America will make almost no new fixed-rate, long-term loans on real estate. Also, most new consumer loans are to be priced on a floating basis as quickly as the bank

Bank of America President Samuel H. Armacost framed by San Francisco Bay
The view from the top is for three years of sawtooth swings.

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can get its computer programming up to speed.

Variable-rate lending, while protecting BofA from the kind of mismatch that is hurting current earnings, can present other dangers, however. "You can catch the credit risk coming back in defaults," says Armacost. So while BofA will soon offer a mortgage on which the interest rate can rise 1% every six months, with no maximum ceiling, it will be far tougher in screening the creditworthiness of its loan customers. The old lending rule of mortgage, tax and insurance equaling 30% of gross income or less will not necessarily apply.

Armacost is installing this flexible-rate defense to get the bank through the uncertainty he sees immediately ahead. "These are truly special times," he says, looking out across San Francisco Bay from his 40th-floor office in BofA's headquarters. "Even though Reagan economics will lessen the volatility of interest rates, it could be two to three years before we see an end to these sawtooth swings."

"I didn't create the environment, but my job is to manage through it," says Armacost. "I am not going to let the waves wash over us."

But with defense for the future in place, Armacost still faced the problem of current losses caused by the mismatch. To stem such losses, Armacost is using a stratagem that he developed last year while head of BofA's money loan policy committee. Instead of trying to corral departing passbook savers with higher short-term rates, he decided it would be wiser to offset their departure by attracting more institutional funds at fixed rates for longer maturities. At a modest spread over U.S. Treasury rates he could woo pension fund and insurance company money away from government securities to BofA's fixed-rate negotiable certificates of deposit. The bank also took on a lot of debt in the three-to-five-year range. By such tactics Armacost almost doubled the average length of BofA's CD portfolio in 1980, to six months, at an average fixed rate of 13%. Currently, even though rates have shot up once again, he is maintaining an average maturity close to six months at less than 14½% interest.

How do fixed-rate deposits at such historically high rates help ease the burden? Richard Leech, vice president of Keefe, Bruyette & Woods, Inc., explains: "They can flip those fixed-rate funds into variable-rate assets like overnight Eurodollars at 18% to 20% and start compensating for the liability mismatch that has been screwing them," says Leech. In other words, the bank can earn enough on the Eurodollars to offset losses on the mortgages and auto loans.

Leech believes that Armacost's strategy will pull BofA out of its earnings nose dive and allow the bank to finish 1981 at least on a profits par with 1980. Deputy Cashier L.W. Teel agrees that the scheme is working. "The $8 billion mismatch we had in 1980 has been trimmed to $6 billion today," he says, "and we hope to get another $1 billion off this year."

That is the great benefit of BofA's size and scope: Faced with an awesome mismatch, it can take on $3 billion of institutional deposits and debt, put them out again at a 5% spread or more and possibly earn $150 million, nearly 25% of the bank's $643 million 1980 net income, in very short order.

But, even as the lowliest S&L, the mighty must also watch expenses. BofA's operating expenses rose 21% in the first quarter, to $647.2 million on an annualized basis. Armacost, looking for other ways to return the bank to the 17% annual earnings growth the bank has enjoyed over the last five years, is expected to trim the number of BofA's 1,100 branches in California by substituting automated tellers. He also has a sharp eye for possible reductions in the bank's international network of 122 branches and 20,000 people—the sector where he spent six years of his career.

He is even counting the paper clips, as hundreds of harried S&L presidents round the country must be doing these days. Most of them, of course, would gladly trade a month's wage just to have the stationery concession for BofA. "It sounds small but we spend $83 million on paper, pencils and paper clips each year," says Armacost. "We can do with less."

BofA's quarterly earnings decline this year was the first such in 14 years, and it received a lot of attention in the press and from security analysts. The attention, and the implied criticism of bank management, angered Armacost, who thought BofA was taking flak for a situation that applied to the whole banking and finance business. Spurred by that anger, he has hit the deck running in his new job, and the big bank's performance in the next year or so should be interesting to watch. There is, after all, a world of difference between Bank of America and Anytown's S&L. ■

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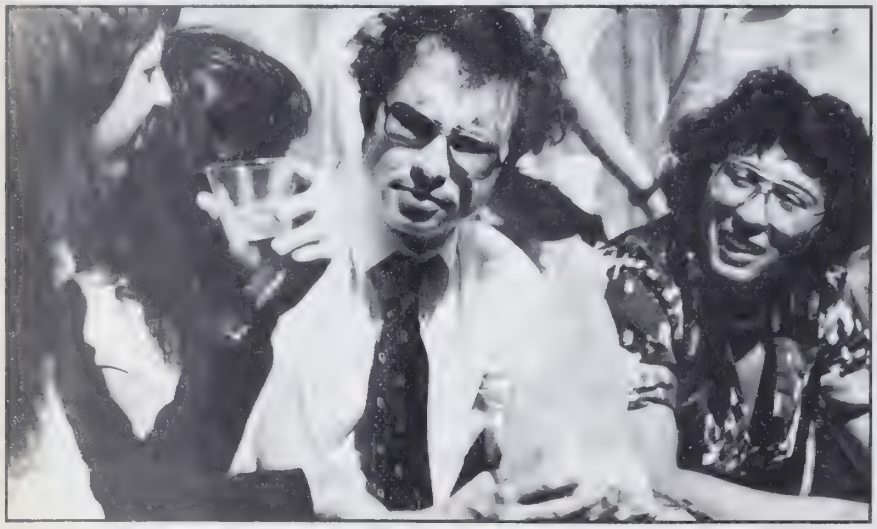
Tandem Computers figures it has the machines to take it to $1 billion, so it works at preparing its people for problems of bigness.

Beyond the better mousetrap

Tandem President James Treybig sharing corporate culture with employees
Seminars and stock options for all on the way to $1 billion sales.



By Kathleen K. Wiegner

In Tom Wolfe's book *The Right Stuff*, he reveals the key to training the first astronauts. The astronauts, writes Wolfe, were taken through simulations of space orbit so many times that when they actually made it into space the trip was as familiar as driving to work. Any problems had to be so familiar that they would seem routine.

Like astronauts, the senior and middle managers of little Tandem Computers Inc. are being put through a training course in expectation of the time—set for internal purposes in 1985—when $109 million (sales) Tandem becomes a $1 billion company. In two-day seminars they run through courses on hiring, delegating responsibility, new markets, new-product development and Tandem's basic corporate philosophy. When the great day arrives, the problems and differences that come with bigness should seem old hat.

"We use $1 billion not as a sales forecast but to think about the problems that come when you get that big," says James Treybig, 40, Tandem's president. "We need to anticipate growth so people can recognize the problems that come with growth." Eventually all of Tandem's 1,890 employees will take that training in anticipating growth.

Planning for $1 billion in sales is neither arrogant nor farfetched. The Cupertino, Calif.-based minicomputer company has one of the hottest track records in a hot industry. Since going public in 1977, Tandem's revenues have soared from $8 million to $109 million; earnings have risen from $325,000 to $11 million. For the first six months of this fiscal year—which ends Sept. 30—revenues surged to $88 million, from $45.7 million in the first half of fiscal 1980, and net income equaled the $11 million Tandem made in all of last year. In order to reach $1 billion by 1985, revenues must grow at a compound annual rate of 50%.

Treybig, a lean Texan with a bachelor's degree in electrical engineering and an M.B.A. from Stanford, worked for more than five years as a marketing manager at Hewlett-Packard before he started Tandem with three other H-P employees in 1974. He also spent over a year as a limited partner at Kleiner, Perkins, Caufield & Byers, the San Francisco venture-capital firm, working on his business strategy and his plan for a better mousetrap.

The mousetrap that Treybig and two computer engineers came up with was a way of linking two or more central processing units together, so that if there was a failure anywhere in the system, work would automatically shift to another part of the system while the faulty parts were fixed. The computer could keep running. The Tandem NonStop system—Treybig says he got the idea from Hewlett-Packard customers who were looking for such capability—was an instant hit with banks, hospitals, distribution outfits, government agencies, even racetracks where betting is computerized. "If you run a business with a computer, whether you're a big bank or a travel agency, your computer can't be down," explains Treybig. "Every customer we talk to says *his* is the worst problem."

Because Tandem's computers can be linked together without any software changes, a bank or hospital can start with two processors—which sell for around $200,000—and eventually add on 14 more of the boxes. This system in turn can be hooked up with other systems anywhere in the world. First Chicago Corp. currently uses 31 Tandem computers in a worldwide network to manage everything from currency transactions to its automated tellers.

Having established his niche, Treybig so far has shown that he has a good grip on financing Tandem's explosive growth. The company has almost no long-term debt, earned a tidy 21% on equity last year, and uses its $99 million in cash balances to produce interest income amounting to 25% of this year's first-half pretax earnings.

When he needs capital to finance the next phase of Tandem's expansion, Treybig can go again to the equity market, as he has done three times since going public. He avoids debt, he says, because "when you're selling

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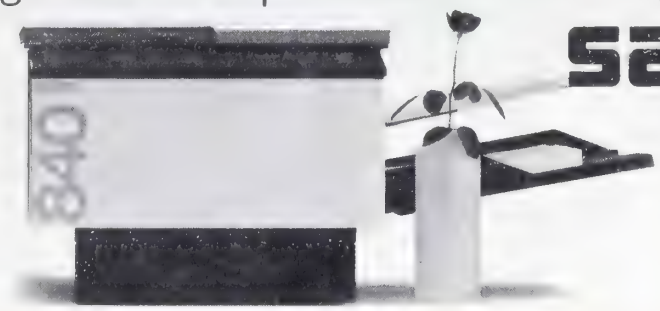

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Last year, half decision makers go

Corporate jets

More to the point, they had every reason for doing so.

Because, until now, executives who found themselves taking thirty or forty long-distance business trips a year had but two options.

The first was the airlines. The subway system of the sky, so to speak.

The second was the private corporate jet. For executives with the muscle tone to sit cramped for hours, the patience to keep stopping for fuel and inordinate amounts of money to burn.

The airlines: Even as they raise their fares, they lower our expectations.

The airlines have two major drawbacks. The routes they don't fly, and the routes they do fly.

CAB statistics covering the two-year period since the onset of deregulation show that less profitable routes are being dropped at the alarming rate of over 42 cities per year.

On routes they do fly, rising air fares are overtaken only by rising columns of red ink, making further price hikes more than likely.

And let's not forget the traffic jams to the heavily congested airports, the long lines at the ticket counter and the gate, the indifferent flight attendants, the curious food, the movie they show while you're trying to work, and, of course, the luggage that flies north even as you fly south.

What you can forget is the most important requirement of high-level business travel in the twentieth century.

Random access. The ability of an executive to fly anywhere at a moment's notice. Be it to sign a merger, beat a deadline, handle a crisis or negotiate a treaty.

There is, in fact, only one conceivable way for a corporation to give its top executives random access to jet transportation.

Give them random access to a jet.

And considering the aircraft available until now, the reluctance of most corporations to do so is almost forgivable.

The corporate jet: If man was meant to fly, why did they make it so expensive?

The forerunners of corporate aircraft like the Falcon 50 and the Gulfstream III were designed fifteen and twenty years ago re-
tively, when a gallon of jet fuel
less than a dime.

Which explains why the
signers were so unstinting in
amount of fuel they allowed t
machines to feed on.

But then, in the sixties, y
could get away with things lik

The problem is, the basi
signs of the airplanes and the
built-in need for large amount
fuel that go with them have b
perpetuated in their newest
offspring.

So that flying the Gulfstr
across the Atlantic and back,
example, requires the purcha
no less than 5,230 gallons of

(The Gulfstream III is als
every bit as noisy as its prede
sors. Nearly three times as lo
the Challenger on takeoff, twi
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over four times as loud on sid
which is precisely where nois
has the most impact on the
surrounding community.)

What executives clearly
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mically and in greater
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emember the 5,230 gallons
you need to fly the Gulf-
III across the Atlantic? The
ger will make the same trip
55 gallons.
verall, the Canadair Chal-
averages a 22% lower rate
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50 and, hard as it may be
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mption per mile than the
ort-range Falcon 20F.
et the Challenger is bigger
l of them in the one dimen-
sion most critical to passenger comfort and a realistic working environment: width.

Measured at the floor line, both the Canadair Challenger and the bigger, even longer-range Canadair Challenger E are roughly 30% wider than the Gulfstream III and 48% wider than the Falcon 50.

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The IFR range of the Canadair Challenger makes it one of the few corporate jets in existence that can cross the Pacific with one stop.

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against larger companies like IBM or Data General you have to look safe financially to your customer."

And also because he can get equity money dirt cheap and without dilution while Tandem sells at around 48 times this year's anticipated earnings of $26 million, or $2.15 a share. At the recent price of $103 a share—for a company that earned $1.06 a share last year—investors are buying the vision of the multibillion-dollar company Tandem may become.

Is that vision realistic? The prospects at least are bright. "Tandem has several more years of well above 50% annual growth based on its existing customers [most of them large companies] adding new equipment," says Michael De Santis, a partner at San Francisco's investment banking firm Robertson Colman Stephens & Woodman. Nationwide banking and the acceleration of electronic funds transfer are trends that will send Tandem's financial customers scurrying back for more computers.

But most reassuring of all is that Treybig's Tandem is developing corporate muscle tone now, in the heady growth days, that should serve it well when the going gets tougher.

Tandem buys most of its components and such peripherals as terminals and printers from outside companies, and one set of circuit boards essentially fits all systems, so it gets the cost advantages of volume manufacturing. In addition, only 30% of the subassembly of these circuit boards is done by company employees—the remainder is farmed out to subcontractors. This arrangement keeps Tandem's labor costs down, reduces the need for high-priced new capacity and also precludes future layoffs in slow periods.

Laying off and rehiring people is frowned upon in the electronics business. First, it's expensive. But it also erodes the spirit of joint effort that companies such as Tandem strive to instill in their employees. At Tandem, all 1,890 employees get stock options. Every Friday afternoon Tandem holds "beer bashes" on the company's patio, where suppliers, managers and assembly workers swap information and complaints. In that balmy strip of northern California known as Silicon Valley, where skilled people are hard to find and often harder to hold on to, Tandem's tennis courts and flexible work hours are not merely examples of "laid-back" California, but practical industrial relations tactics.

Life at Tandem is anything but relaxed. Worker productivity is twice the average for the computer industry, which is as a whole devoutly entrepreneurial and fiercely competitive. Treybig's paradox is that Tandem must grow big or be swallowed up by a larger competitor; yet, to grow, it must keep the kind of people who often function best in small, free-wheeling organizations.

Treybig is under no illusion that IBM, Data General, Digital Equipment or Hewlett-Packard won't someday offer different—possibly better—solutions to the problems that his NonStop system now solves. Tandem will need other ideas for new products and new markets. And such ideas come from motivated people, not machines. With the seminars, the benefits, the emphasis on corporate culture, Treybig is doing more than training or rewarding people—he's involving them. Tom Watson, who built IBM, would understand that very well. ■

U.S. steelmakers are now playing a game of catch-up with the oil industry's booming demand for well pipe.

Everybody into the water!

By Jeff Blyskal

THE U.S. STEEL INDUSTRY has been closing down capacity and writing off plants so steadily in the last few years that this almost seems too good to be true, but true it is: Decontrol has set off such a frenzy of oil and gas drilling that last year the steel industry used every ton of its capacity for making well casings, drill pipe and tubing. Exports were cut to the bone and more than a million tons of imports were needed to fill the orders.

The undercapacity should have come as no surprise. As far back as 1975 the steel industry knew a surge of drilling was probably coming. But in an industry then plagued by overcapacity in its basic business, there was understandable reluctance about a big push to boost capacity in this one segment.

Then, in 1979, the National Petroleum Council (NPC) predicted that if then-present trends continued, new oil country tubing goods (OCTG) capacity would fall 800,000 tons short of demand by 1985. By 1990 the U.S. would be 1.8 million tons short. Imports and "miscellaneous" pipe reclaimed from old wells would make up only part of the shortfall.

But for the better part of a year most steel companies, still not really confident the drilling boom was here to stay, dragged their heels. Until late 1980. Then CF&I Steel announced plans to expand by 150,000 tons its capacity for seamless, high-strength tubing required for deep-well applications. Armco, too, said it would add 300,000 tons. Finally, giant U.S. Steel decided to increase its seamless tubing capacity by 600,000 tons. All told, after adding in facilities being converted from other uses, it's expected that some 1.1 million tons of new U.S. oil well-tubing capacity will come on line by 1985, at a cost of about $2 billion.

"This was a very tough decision," says Richard L. Head, president of the tubular division of $5.7 billion (sales) Armco, the country's leading supplier of oilfield equipment and products. "The cost is tremendous. It takes three or four years to get this on stream, and it's a one-market, one-product investment." Head projects U.S. steelmakers will have 4.8 million tons of OCTG capacity by 1985 to meet 4.9 million tons of demand. That's flat out, using every scrap of capacity, old and new. Since virtually no old capacity is expected to be retired, that's also in the ball park toward meeting demand.

But there's a familiar joker in this deck—foreign steelmakers. While the

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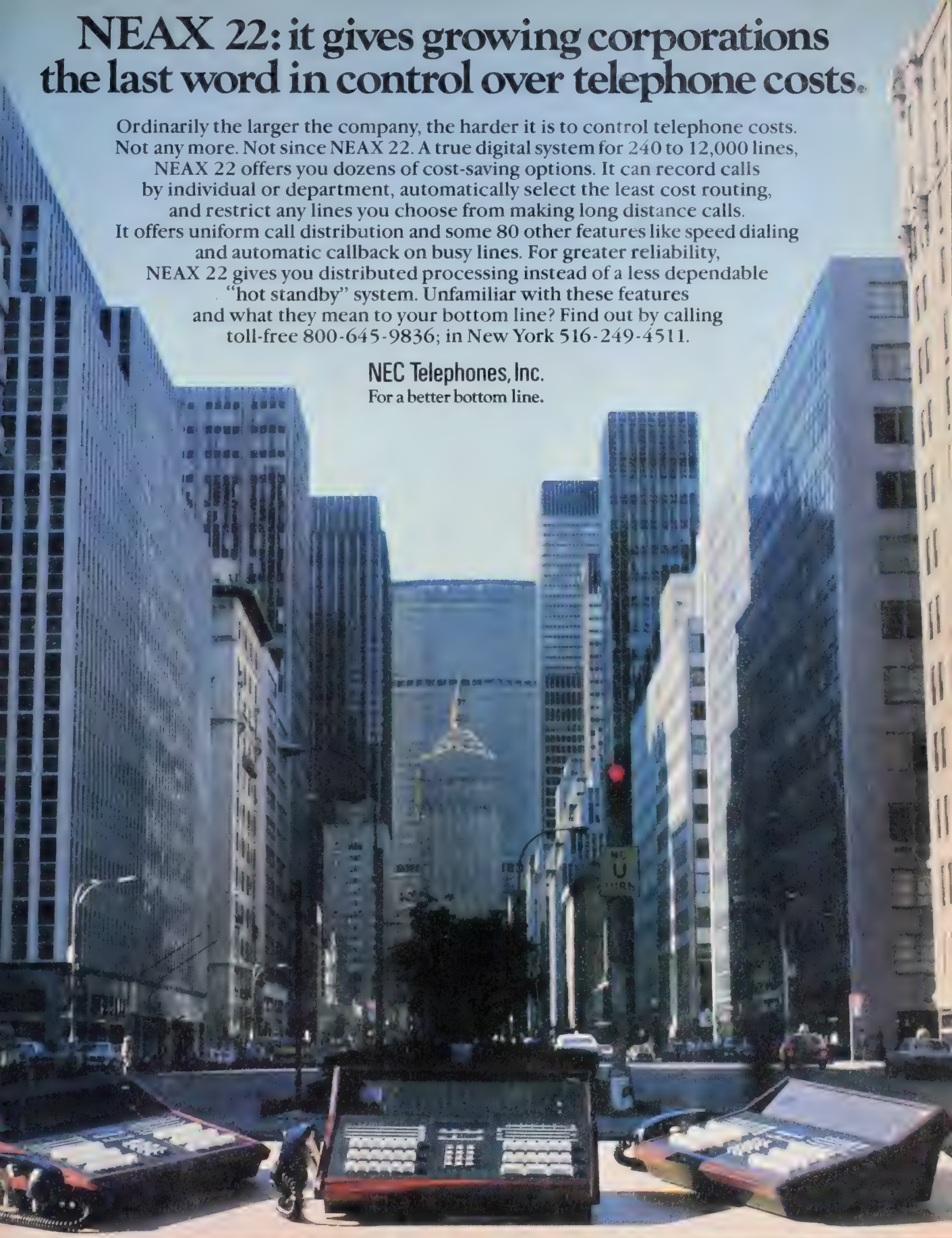

NEC
Nippon Electric Co., Ltd. Tokyo, Japan

U.S. steel industry was hesitating, foreign steel producers—notably the Japanese—filled the vacuum. Oilfield-tubing imports jumped from 460,000 tons in 1979 to over 1 million tons last year—a 25% market share—and foreigners will have more like 30%, or 1.7 million tons, of the U.S. market this year. The foreigners, too, are adding capacity—more than 2.5 million tons of it. Nippon Kokan and Sumitomo Metal Mining of Japan alone will account for 1.2 million tons. This market is a lucrative prize. Margins on oilfield tubing are some of the best in the business, running 3 to 4 times those of flat-rolled steel. About $72 of an average $1,200-ton of oil country tubing goods is profit. But still, steelmakers like Head are optimistically predicting they won't wind up in a new overcapacity situation. "If imports continue to take at least 20% of the market, then in the mid-Eighties they *would* take away some from domestic suppliers," he says. "But a more positive way to look at it is that imports won't necessarily have that much of the market."

Seamless tubing at oil-well drilling site
Too little now, too much later?

Maybe not. But John Wellemeyer, the respected oil-equipment analyst with Morgan Stanley, thinks that's whistling in the dark. "The Japanese aren't going to turn that stuff into fence posts," he says. "They're going to try to maintain their market." Says John Harbin, chairman of Halliburton, the $8.3 billion oilfield service company, who also chaired the committee that put together the 1979 NPC report: "I imagine the domestic steel industry will try to recapture the market share that has gone foreign. But it'll be tough."

It took a long time for the U.S industry to screw up its courage. Now that it has, it is clearly taking something of a gamble. ■

With luck, Pan Am may stave off bankruptcy once more. But Bill Seawell must radically restructure it to turn it around. The latest bloodbath in the executive suite is only a start.

Power dive

By Subrata N. Chakravarty

THERE WAS A DREARY appropriateness to it all: the faded opulence of New York's Biltmore Hotel and the faded glory of what was once the world's greatest airline. Once again, last month, William T. Seawell, chairman of Pan American World Airways, stood up to face the hostile stockholders. Once again, he had little encouraging to report. In 1980 Pan Am had lost close to a quarter of a *billion* dollars on airline operations, and in this year's first quarter, another $123 million. Even after adding back depreciation that's a cash loss of over $65 million in three months—and the only reason the company reported an $80.3 million net profit last year (on sales of $4 billion) was a $294.4 million capital gain on the sale of the Pan Am Building in New York. Pan Am, which Seawell managed to pull out of its dive toward bankruptcy only six years ago (FORBES, *Sept. 1, 1975*), is in another tailspin. This time, more than Seawell's skills may be required. It will depend to a considerable extent on sheer luck.

Pan Am's onetime greatness—as well as the seeds of its current problems—date back over a decade to the grandiose strategy of its founder, Juan Trippe. By flying everywhere in an era when little international competition existed, Trippe built Pan Am into the premier international airline. In the late Sixties Trippe committed Pan Am to buying large numbers of Boeing's 400-seat 747 jumbo jets before anyone else. Clearly he was right about the 747's potential; but by the time the planes were delivered, Pan Am's business was being steadily eroded by competition from ever-increasing numbers of foreign-flag carriers. A fully loaded 747 is perhaps the most efficient airplane in the sky. A partially filled one, in the highly lever-

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aged airline business, is like a beached whale. Deep in debt, Pan Am started taking heavy losses. By 1972, when Seawell took over from Najeeb Halaby, drastic measures were necessary. He slashed personnel, sold off aircraft and curtailed routes. In 1977 a fortuitous boom in airline travel gave Pan Am a breather, but the crushing debt burden—$1.1 billion in 1977—remained, and as competition grew, fuel prices skyrocketed and the world economy weakened, Pan Am's overseas performance soured once more.

Is Pan Am simply not competitive? Not by normal standards, but competition means something quite different overseas, where most airlines are either owned or subsidized by governments and are a matter of national prestige or a means of attracting tourists. Profit can be secondary.

Seawell points to Philippine Airlines as an example. Although its government recently had to kick in $65 million to offset 1980 losses of $52 million, he said, the airline has nevertheless bought four new Boeing 747s for its Manila-U.S. route—the run that used to be one of Pan Am's most profitable. No longer. As recently as 1978 Pan Am earned $111 million on all its Pacific routes; last year it *lost* $18 million. In the trans-Atlantic market losses are still larger because competition is more intense. In fact, only in Latin America, where competition is weakest, did Pan Am make money last year.

The Carter Administration made matters worse by deciding that deregulation should be international as well as domestic, and granting U.S. landing rights—almost for the asking, says Seawell. Result: In the past decade, U.S. airlines' share of international traffic has dropped from almost 28% to under 20%, and the hardest hit by far has been Pan Am.

Deregulation also opened the door, of course, to a long-cherished goal for Pan Am—flying domestic U.S. routes. In 1979 Seawell paid $50 per share, close to double book value, for National Airlines. So far the merger has not worked well. Integrating a long-distance low-frequency airline with a short-distance high-frequency airline would have been difficult in the best of times; in a weak economy it has been a near disaster. Pan Am lost over $82 million on domestic operations last year.

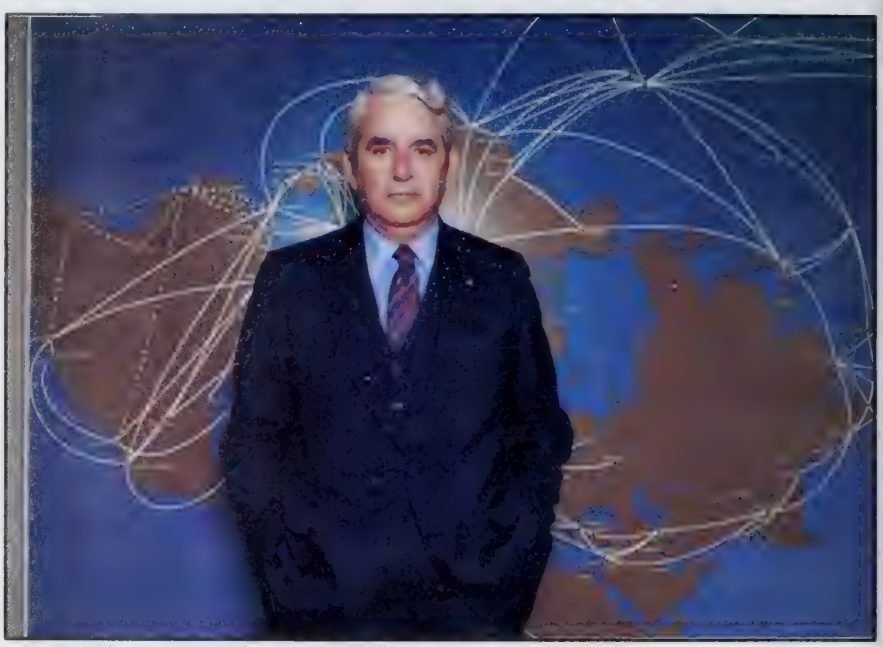
Deregulation, moreover, exposed a basic weakness of the airlines. For years they had acceded to union demands without much of a fight, passing the costs through to customers by asking the CAB for higher fares. After deregulation, however, small local airlines sprang up. Nonunion and thereby far more flexible in their work rules, the small lines have considerably lower labor costs. For example, according to a study by Lehman Brothers' Robert Joedicke, Texas Air Corp.'s unionized Texas International pays its Boeing 727 pilots $62,000 annually for flying 55 hours per month. But TAC's *nonunion* New York Air pays its pilots only $30,000 for flying 75 hours. The result: The locals are eating airlines like Pan Am alive.

As if all that were not enough, Pan Am has the highest fuel costs in the industry by far. Because 70% of its flights are international, it must buy about 40% of its fuel overseas, where costs are far higher than the 1980 average 85-cents-per-gallon U.S. price—up to $1.71 in Karachi. In fact, Pan Am's average fuel costs, under 10 cents a gallon in 1970, are now $1.13 per gallon, *vs.* $1 for United; and each cent adds $11 million to Pan Am's operating costs. Thus, Pan Am's aging fleet—over ten years old on average—is a critical problem. With its fuel costs sky-high, the airline desperately needs more fuel-efficient aircraft. But with a debt load of $1.5 billion (almost double its equity) and an interest burden of $137 million a year, it can afford only a few. In the next two years Pan Am will spend some $550 million for six Lockheed L-1011s (it already has six) and eight Boeing 727s ordered previously. But there is nothing more in the pipeline. Seawell says he has no intention of ordering any of the new generation of Boeing 757s and 767s that will start arriving at other airlines next year until Pan Am gets solidly back into the black. That will put Pan Am even further behind the competition.

Is there anything Seawell can do to pull Pan Am out of the power dive? Says he: "You redeploy some of your assets, as we will. You curtail some flights. You put some more squeeze on the people. You try to get your message across to management and labor. And here and there you will be unsuccessful, but history has said that if you work like hell, you'll be successful enough to pull through."

Brave words. Seawell acts as if he means them. He has already begun cutting back—since October 1978, 24 routes have been terminated, with more yet to go. Five of National's DC-10s are on the block (along with a 747 freighter and 25 grounded, and probably unsalable gas-guzzling Boeing 707s). Shrinking an airline in bad times is nothing new, but Seawell plans to sell even more planes when traffic picks up and the used market strengthens. That's unique. The work force was trimmed 10% in 1980. Ten vice-presidential posts were abolished earlier this month, a move worth more in symbolic terms than in cash saved. "We're squeezing every bloody capital dollar we can get our hands on that's not directly associated with safety and short-term revenue payoff," he says. "There are some things that are highly desirable, but if it doesn't contribute in 1981 or 1982 you say: 'Well, that comes later.' "

Seawell's biggest challenge will be



Pan Am Chairman William T. Seawell

"Here and there you will be unsuccessful, but history has said that if you work like hell, you'll be successful enough to pull through."

o wring "givebacks" out of Pan Am's nions. The portents are not good: So ar the airlines have had less success t that than other troubled industries, ike autos. But Seawell thinks the nions may see that Pan Am's situaion is more precarious. "We'll know efore much longer whether we have ome reasonable chance here or not," e says. "But I'm going to be positive ecause we have to get it done."

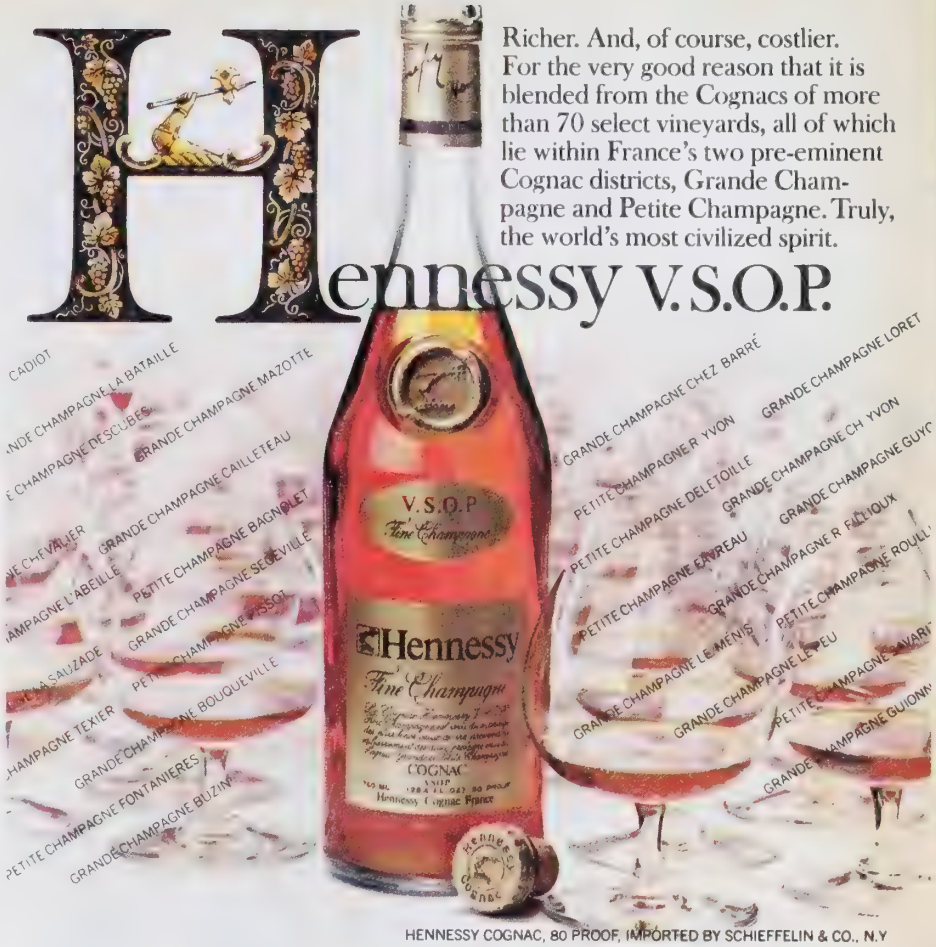
All these steps are, of course, merey reactive. Without some positive acion, they will merely postpone the nevitable. But they buy a little time, nd time is something Seawell desperely needs.

He may get it. Thanks to the world oil surplus, fuel costs could stabize, maybe even decline. Air traffic nay pick up a bit later this year. With little luck on both counts, it is quite kely that Pan Am will make it nrough this downturn.

What happens after that? Unable to ompete in price with subsidized forign airlines and cut-rate domestic loals, Pan Am proposes practically to bandon competition on price. "In ur case," says Seawell, "you would ry to establish yourself as catering to ne upscale, more business-oriented narket." In other words, Pan Am will oncentrate on full-fare travelers. That goes against the grain of the ndustry's strategy of the Seventies, vhen the emphasis was on volume nd cut-rate fares. But that strategy vas a function of the huge increases n capacity in the Seventies. Pan Am's approach is the opposite beause it plans to reduce capacity.

That would take some doing. To ucceed in the endeavor, Pan Am nust convince passengers that it vants their patronage. The airline as, over the years, acquired an unenjable reputation for indifferent and ometimes uncivil service. Pan Am as, in fact, become the airline that ravelers love to hate. If Seawell can hange these attitudes, he has *this* gong for him: A 1-cent increase in the evenue yield per passenger mile (Pan Am's is 10½ cents, well below averge) brings $28 million down to earngs. With an improved cash flow, an Am then could expand its nonairne businesses, as Trans World Corp. as done. One thing Seawell already lans is to expand Pan Am's Intercontinental Hotels subsidiary, which ontributed $42 million pretax on revnues of $274 million last year.

Will Seawell be able to pull it off? He ives the question some thought. We've done it before, and we're just oing to have to do it again," he says. , that is, the fates give him time. ■



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America is still the new frontier as far as European financiers are concerned. But aren't we getting too many gunslingers?

More enterprising Brits

By Maurice Barnfather

A FEW MONTHS AGO $8.5 billion (sales) Westinghouse Electric Corp. contracted with Peter de Savary to open a few doors to the oil-rich kingdoms of the Middle East. Why? A handshake, and then an estimated $50,000 was passed to de Savary with the promise of more when Westinghouse landed some juicy contracts. It was all open and aboveboard. No smell of bribery. De Savary was simply to introduce Westinghouse to the right Middle Eastern gentlemen.

While de Savary does indeed have good Middle East contacts, something bothered Westinghouse. Maybe de Savary was just too smooth. Anyway, Westinghouse made inquiries in London: "Is Peter de Savary okay?" The answer led Westinghouse promptly to end its deal with de Savary and write off the fee to experience. De Savary is but another in a long line of European businessmen who, as FORBES pointed out *(Aug. 4, 1980)*, head for the U.S., where an English accent and formidable contacts can obscure an otherwise dubious career. Who are the new crop of promotors to invade our shores? Let's start with de Savary.

• Peter de Savary, 36, was born at Dengie Manor in Essex, England, spent much of his childhood in Venezuela and later a full ten years traveling Africa and the Middle East. His London offices are within a stone's throw of the plush St. James's Club (believed to be owned by some of his Arab friends). De Savary calls himself "an old-fashioned adventurer."

Peter de Savary, 1980

An old-fashioned adventurer who is busy polishing up an image that has spawned the nickname "unsavory."

Apparently Arabs like him. They provide most of the money for his Bahamas-registered Artoc Bank & Trust Co. The bank looks to be controlled by Artoc S.A.K., which in turn is owned by some 35 Arabs. Its U.S. arm is Artoc America, registered in the Cayman islands. A few years back Artoc put up $11.8 million to bail out the ailing U.S. Lee National Corp., a real estate and finance company. Trouble was Artoc Bank's deputy chairman was also deputy chairman of one of Lee's major creditors, the AP (formerly the Anglo-Portuguese) Bank. Put simply, it looked like Artoc money was being diverted to help out the Artoc Bank deputy chairman's friends at the AP Bank. Of course, Artoc doesn't see it quite like that. "It was a business deal only," says Artoc's London representative, Richard Lascelles.

De Savary has done "cozy" deals before. In 1977 Artoc Bank bought effective control of Talbex, a publicly traded London company. Six months later de Savary was trying to stuff into Talbex an engineering company owned by clients of his Artoc Bank. That the engineering company was owned by clients of Artoc was not at first revealed to Talbex' other shareholders. Artoc is now out of Talbex. Said de Savary at the time: "It was a bloody nightmare."

U.S. companies thinking of dealing with de Savary might also bear in mind the maxim: Judge a man by the company he keeps. For example, merchant banker Alan Morris, whose Morris Wigram financial outfit went spectacularly wrong before it was bought by Schlesinger Bank in 1974, was until recently running Artoc's Nassau office. He returned to help de Savary and the Arabs with their $14 million St. James's Club.

Clearly de Savary is a rich man. Rich enough, anyway, to underwrite Britain's $8 million 1983 tilt at the America's Cup, that premier yachting trophy won for the past 130 years by the New York Yacht Club. To win the cup, de Savary has formed the Victory Syndicate, where membership costs $200,000. Presumably de Savary hopes this patriotic gesture will polish up an image that has earned him the nickname "unsavory."

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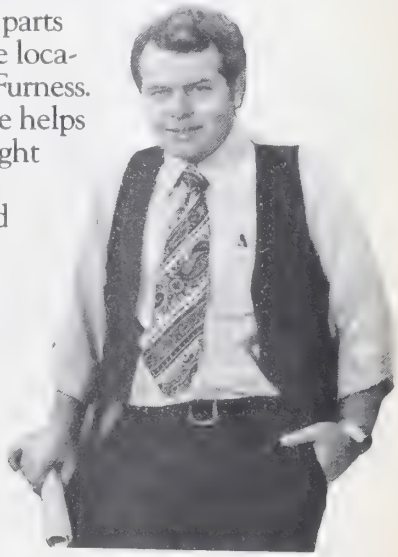

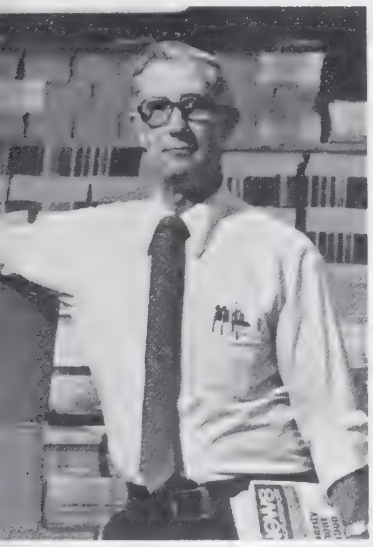

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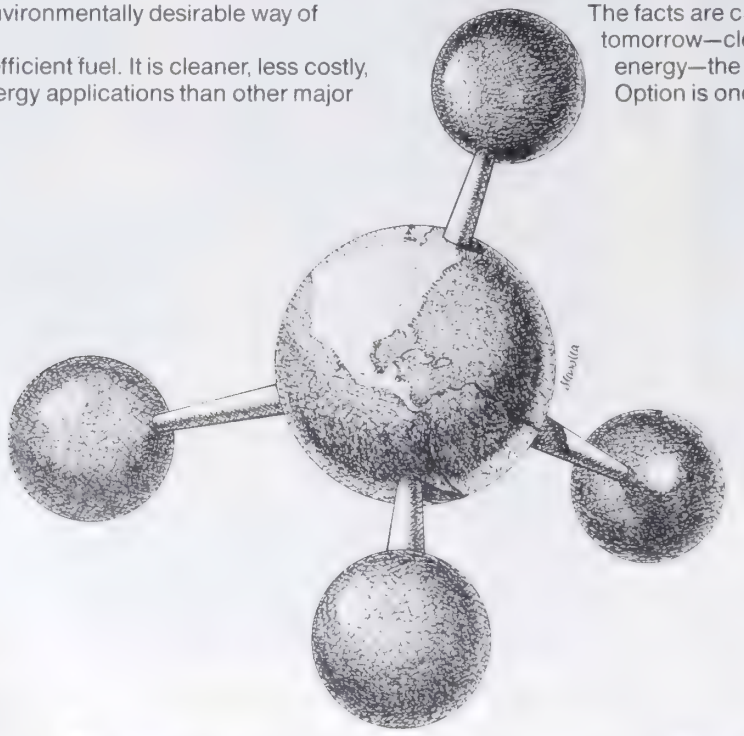

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Roland Franklin, 1967
Another friend of Sir James.

Eric Levine is no stranger to the U.S., though perhaps he should be. He's a close adviser to Sir James Goldsmith (FORBES, *Sept. 17, 1979*), whose companies control the Grand Union supermarket chain. Recently Levine has been a frequent visitor to this country on business of his own. That has included persuading businessman Stanley Mann (FORBES, *Nov. 10, 1980* and *Apr. 13*) to buy a 16% interest in Howard Machinery, a British farm machinery company that last year lost money on £72.7 million in sales. Shortly after that, Levine and a group of other British investors tried and failed to buy control of Mann's $77 million (assets) Oxford First Corp., a U.S. financial services group traded on the Amex.

Apparently that setback has not dulled Levine's U.S. ambitions. Little is known here of Levine's investigation not only by the Law Society, which regulates solicitors, but also by Britain's Department of Trade, as a result of his role in the scandal-ridden London Capital Group. This was the "bank" run by former British Member of Parliament John Stonehouse, who disappeared presumed dead off the Florida coast in 1974, before turning up alive and well in Australia in 1975. Stonehouse was later extradited to Britain and convicted of fraud. Levine's firm was blamed for covering up information and thereby enabling London Capital to stay in business. His inappropriate advice about loans from London Capital to Stonehouse and friends was described by the DOT as "strange in the extreme."

- Another of Sir James Goldsmith's

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May 22, 1981

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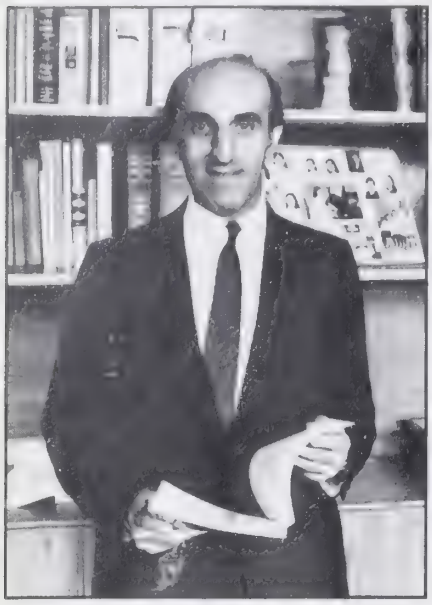
Jack Dellal, 1969
Black Jack plays New York.



friends now in the U.S. is Roland Franklin. He moved to New York to help with Goldsmith's banking and other operations here in 1979. Between 1965 and 1972 Franklin's bank, Keyser Ullmann, aided Goldsmith in a string of brilliant deals that catapulted his Cavenham company into the ranks of Europe's leading food groups.

Franklin was still a director of Keyser Ullmann when it almost collapsed. In fact, in 1975-76 Keyser ran up the largest loss in British banking history as a result of massive property speculation. It survived only with massive financial support from the Bank of England. Its loss was $122 million, after setting aside $165 million for bad or doubtful debts.

Later it was reported that Franklin and other Keyser directors shared in personal loans from the bank totaling $26 million. He personally owed Keyser over $1 million at one point. Almost a year after his resignation in July 1975, Franklin still owed $500,000. He claims the loans have been entirely repaid. Snaps Franklin, sounding rather irritated, "The only peculiarity of any money I borrowed from Keyser Ullmann is that it was one of the few loans that got repaid in full."

• Jack Dellal is a former Keyser Ullmann joint managing director now working here. Affectionately known as "Black Jack," Dellal was a prime culprit in the near disaster at Keyser Ullmann. That included a disastrous $40 million loan to disgraced financier Christopher Selmes (FORBES, *Aug. 4, 1980*). Dellal was not a large personal borrower from Keyser Ullmann, but his private companies were. Their loans reportedly totaled over $10 million by the time of Dellal's resignation in July 1974. They are believed to have been repaid.

What's Dellal doing in the U.S.? He has linked up with the mysterious David Shamoon, a 49-year-old Iraqi national whose companies received $2 million in loans from Keyser Ullmann while Dellal was there. From their plush office in the General Motors building in Manhattan, Dellal and Shamoon are now wheeling and dealing in New York real estate.

• Tony Rudd was senior partner of stockbrokers Rowe Rudd when it ceased trading earlier this year and turned itself into an investment advisory outfit.

Rowe Rudd's reputation in London for taking public a string of poor new issues earned it the name "Rowe Dudd." For instance, when Rowe Rudd brought leisure group Scotia Investments to the public, the prospectus omitted to tell investors that the main shareholder, Boris (Bobby) Marmor, had been in prison for covering up embezzlement by his employees.

Tony Rudd's U.S. involvement is with the grandiosely named American Communications Industries. He's on the board of ACI which raised $9 million in London and another $13.5 million in the U.S. to finance a switch by ACI from cheap kung fu movies to more up-market fare. But ACI missed by 18% its profits forecast made only two months before the end of its year. ACI has also made interest-free loans—at one point totaling over $3 million—to companies owned by Michael Leone, its chairman and founder. Leone also made a $200,000 profit in five months on property sold to the company. Said ACI in February: "The transactions involving this property may not have been concluded on terms as favorable to the company as if [we] had dealt with an unaffiliated third party."

Perhaps, after all, this is a case of the British promoter and the American client deserving each other. ■

It's getting harder and harder to measure a company's pension liabilities. But don't blame the accountants. Blame inflation.

Reading the tea leaves

Numbers Game

By Thomas Baker

IN THE FACE OF disastrous losses for Pan Am and Braniff, Eastern Air Lines looked good in April with a first-quarter profit of $4.1 million. However, had the accountants and actuaries not changed one or two assumptions in Eastern's pension plan it would have been a different story. The airline's pension plan funding in 1981 will be reduced from 1980's $100 million to around $75 million. That's a "saving" of $25 million.

Bet you thought this kind of cookie jar stuff was illegal. Welcome to the rarefied world of actuarial assumptions, where crystal-ball gazing is accepted practice. Simply put, Eastern's squad of actuaries merely penciled in a change in their assumptions of what Eastern's pension fund might earn on its capital in the future. Obviously, if you assume that interest rates will stay high and that you're going to earn more on the money in your fund, then you need to put in less now to meet future obligations. That means you can decrease your annual contribution, as Eastern did.

Is this legitimate? Perfectly. Companies are free to pick any number

Picking options for your new car? Don't forget Ford's Ultimate Option. The only one that could pay for itself.

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For a small fee, the remaining coverage is transferable to the new owner. This can be a strong selling point.

"Suppose I'm out of town..."

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"Okay...but is it expensive?"

The cost of E.S.P. is surprisingly low. And it can be added to your monthly payment if you finance your new vehicle. When you consider the low cost of protection on your initial investment, and how long you'll probably keep your car, it just makes good sense to buy Ford's Ultimate Option...E.S.P.

Ask for Ford Motor Company's Extended Service Plan by name.

that feels right to them. "There was a rash of increases in actuarial assumptions in the mid-Seventies, the last bout of high inflation," recalls Ed Davis of Buck Consultants, a New York-based actuarial firm. "People were looking for places to improve earnings. I have to expect that there is going to be another rash."

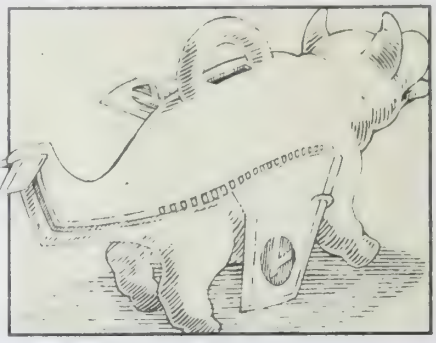
That's not going to make things any easier for investors trying to compare two companies' pension expenses, or to keep track of how well the pension is funded. Or, for that matter, to compare earnings figures from year to year.

Here's how the change worked for Eastern. Since 1974 the company had been assuming an interest rate of 7% over the long term. The airline knew, roughly, how much money its plan would have to pay out over the next 20 to 30 years, and assuming that it earned 7% on its portfolio over that time, it knew how much it would have to kick in. But now, Eastern and its actuaries have decided that interest rates are going to stay higher than 7% over the next couple of decades, so it raised its assumed rate to 9%—and cut the contribution.

Eastern's treasurer, Charles Glass, says it was the actuaries' idea: "These were recommendations from them." As it happens, Eastern's assumptions aren't much ahead of current practice: A fall 1980 survey by Greenwich Research Associates showed that the average corporate interest assumption was 6.3%, but since then many funds have been steadily ratcheting their assumptions up to the 7%-to-9% range. Crown Zellerbach, for example, changed its rate assumption from 6¼% to 8½% last year for reporting purposes (it used a more conservative 7½% internally). That reduced the present value of CZ's anticipated pension payout from $467 million to $426 million at a time when assets were increasing. That meant the company reported a plan surplus of $85 million. The year before, there was a $77 million shortfall.

Which set of figures is right? It depends on which set of assumptions turns out to be true—if either. What's important to recognize is that company earnings figures can be hoisted up and down by methods and assumptions different for every company.

In an attempt to help, the Financial Accounting Standards Board last year imposed a whole new set of reporting requirements on pension plans (Numbers Game, *Mar. 17, 1980*). The FASB



decided that future salary increases shouldn't be taken into consideration when computing how much the plan will have to pay out, and that the interest rate assumption for reporting purposes should be generally higher than many companies use internally.

This FASB ruling only muddied the waters more. One company went so far as to release two sets of figures: one to satisfy the FASB, and then the real numbers—those it uses internally to figure out how to fund the plan. There's a big difference. Under the 10% assumption it thinks the FASB wants, Bethlehem Steel's plan looks just fine: assets of $2 billion and liabilities of $2.4 billion. But with Bethlehem Steel's own 7% assumption, benefit liabilities soar to $3 billion. "If we'd used a 10% interest rate assumption and assumed no salary increases, we would have put much less into the fund," explains Bob Gerst, general manager of employment-cost accounting at Bethlehem Steel. As it was, Bethelehem put $309 million in last year—using its own more conservative 7% figure. "This whole thing is a can of worms, if you ask me," moans Bethlehem's Gerst.

Unfortunately, you can't just impose one rate assumption on everyone. Explains Raymond Perry, a partner at Touche Ross & Co.: "A single assumption is apt to be unrealistic because the experience of companies varies with such things as investment performance and employee turnover."

Now the FASB is preparing for July hearings on pension accounting, and the subject is being thought through again. Among the possibilities: One funding method could be imposed on all companies. But, as Perry said, that would not be realistic. So, which do you prefer: a neat fiction, or an anarchic realism? ■

Among the "truly needy," count the big aircraft and power-plant makers fighting to preserve their export subsidies.

Political credit

By Beth Brophy

You could understand the politics behind Congress' revolt against Reagan Administration budget-cutting on Social Security. It was a pocketbook issue for the constituents. But now Congress is fighting the Administration's cuts on a matter of aid to business.

Last month, the Senate and House separately voted to restore between $250 million and $375 million of the Administration's cut in direct lending authority for the Export-Import Bank. Conferees of the two houses are now hammering out how much to give Ex-Im above what the Office of Management & Budget requested. And the White House remained complacently silent on this one.

What makes the Ex-Im Bank more of a sacred cow than free milk for schoolchildren? To hear congressional supporters tell it, the bank, too, is a pocketbook issue—its loans mean jobs. Senator John Heinz (R–Penna.) reckons that every $1 billion in export

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"There are over 600 billion barrels of untapped oil in the tar sands of Alberta, Canada.

C. J. Waidelich, President
and Chief Executive Officer,
Cities Service Company,
Tulsa, Oklahoma

And Cities Service is on top of it."

Two years ago Cities Service, along with other industry and government participants, made the Syncrude tar sands project here in Alberta, Canada, a commercial reality, with current production of over 100,000 barrels of high-grade synthetic crude oil each day.

But that project extracts tar sands close to the surface. However, 90 percent of these untapped resources lie at depths of 150 feet or more. Too deep for surface mining.

Now Cities Service, in joint venture with other companies, is working on three pilot projects to heat the deep tar sands in place, releasing the bitumen from the sands and allowing it to be pumped to the surface.

One method, for example, is to dig a pit down to the level of the deep tar sands. Drill horizontal holes into the side of the pit, inject steam into the holes which alters the viscosity of the bitumen, allowing it to flow through the holes for recovery.

How important is this effort? The deep tar sands contain an estimated 550 billion barrels of oil. And up to 20% of that amount may be recovered with these techniques—up to 110 billion barrels... almost one-third the proven reserves of the Middle East. And the more oil North America has, the less control OPEC will have over world oil production and prices. In addition, the advanced technology we develop in Alberta, combined with increased capital investment, could help convert America's own 130 billion barrels of tar sands and heavy oil deposits into synthetic crude oil.

So putting steam into the tar sands of Alberta could put more steam in our country's ability to produce more energy.

CITIES SERVICE COMPANY

On top of the problem, part of the solution.

Director Donald Stingel of the Export-Import Bank
Critics call it "Boeing's bank" but ignore the gains to suppliers.

sales generates 40,000 to 50,000 jobs. Conversely, 50,000 unemployed would cost the Treasury $1 billion in lost revenues and transfer payments, says Heinz, who is pushing to give Ex-Im a $1 billion "war chest" to help U.S. business compete with countries that help their exporters with generous credit subsidies.

The U.S. Ex-Im Bank, founded in 1934 to promote trade by lending to foreign buyers of U.S. goods and services, may authorize up to $25 billion in loans, guarantees and insurance, must maintain a capital stock of $1 billion and can borrow as much as it wants from the Treasury. But these days Ex-Im borrows from the government at about 14% and lends at about 9%. It subsidizes interest rates because it is competing with other countries' credit subsidies. For example, on a Mexican railroad project France offered a 100% fixed-credit financing deal, most of it at 7¾% interest and the rest at 3½%.

Slugging it out this way has weakened Ex-Im. It currently owes $11.3 billion to the Federal Finance Bank, and anticipates an $18 million loss in fiscal 1982—its first operating loss.

For several years the U.S. has tried unsuccessfully to negotiate an end to credit wars by getting other countries to raise their rates. And the Reagan budget cuts couldn't come at a worse moment, say fans of the Ex-Im. "It's spectacularly ill-timed to give up our most important bargaining chip before we negotiate with those countries engaged in predatory credit prices," says Representative Tom Evans Jr. (R–Del.).

But OMB chief David Stockman is unmoved: "Making the economy more productive and reducing domestic inflation will do more to promote U.S. exports than specific subsidy programs such as the Ex-Im Bank."

Not surprisingly, Ex-Im's beneficiaries see no contradiction between supporting the President's cuts and asking for more money for their own subsidy. "The Boeing company recognizes the need to reduce government spending and curb inflation," says Chairman T.A. Wilson. "However, the company is concerned that the severe cuts being recommended for the Export-Import Bank may be counterproductive." "Ex-Im is not a direct expenditure like food stamps. It's a loan paid back to the Treasury with interest. You have to understand it in those terms," says a General Electric spokesman.

So far the Bank has disbursed $35 billion and has only written off $8 million—or 0.02%—of it. It also has covered $70 billion more in loan-guarantee and other risk programs.

But it has made political enemies, too. Its loan last summer to Rupert Murdoch's Australian airline—after Murdoch endorsed Jimmy Carter in one of his newspapers—didn't win many allies on Capitol Hill, or, presumably, in the Reagan camp.

Even before that it was nicknamed "Boeing's Bank" because 41% of its loans in the last three years have financed aircraft sales. Last year, two-thirds of its $4 billion in direct loans financed sales by seven companies: Boeing, McDonnell Douglas, Lockheed, General Electric, Westinghouse, Western Electric and Combustion Engineering. Critics say it helps neither a broad cross section of American business nor small business. Ex-Im's director Donald Stingel calls this a bad rap. "No one ever mentions all of the thousands of subcontractors and suppliers that get major fallout from the sale of a single commercial jet, a nuclear power plant, a chemical plant or a telecommunications system," says Stingel. He cites the nearly 3,000 subcontractors and suppliers on a single sale of a boiler and components by Combustion Engineering.

That seems to have been the message congressmen listened to last month, for, after the Administration proposed cutting direct loan levels from $5.5 billion to $4.7 billion in fiscal 1981, and from $5 billion to $4 billion in fiscal 1982, the Senate voted to restore $250 million to Ex-Im's 1981 direct lending authority. The House first agreed with Reagan's cut, then reversed itself within a day, adding $375 million in direct loans and $500 million in guaranteed loans to the Reagan request. Now the fight is gearing up for the 1982 appropriation.

Will the Administration succeed in chopping $7.7 billion in direct lending authority from Ex-Im over the next five years? Very unlikely. The export lobby is powerful. "School kids can't come up here and reinstate the school lunch program overnight," complains one Senate aide.

The arguments will continue: "It's a waste of assets to make 9% loans to big corporations," snorts Senator William Proxmire (D–Wis.), who is, however, now in the minority on the Senate Banking Committee. And major corporations are anxious to see California businessman William Draper III confirmed as new Ex-Im chairman and his new board in place—no one knows when—because new loan commitments have been frozen since Feb. 19, pending the personnel changes. Deadline is near for bids on sales of a turbine generator to South Korea and a nuclear power plant to Taiwan by Westinghouse, General Electric and Combustion Engineering.

And when all is said, the chief reason for Ex-Im's partial victory in a time of general budget austerity may have less to do with a particular lobby than with the dawning realization that the U.S. is competing in a world where adversaries fight hard more often than they fight fair. "[Reagan's] proposals to cut the Ex-Im Bank are consistent with his economic programs of less government intervention in the marketplace," says W. Stephen Piper, a negotiator for the U.S. Trade Representative's office. "In a pure world that might work well. But we don't live in a pure world." ■

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Consumer Orientation

No. 12 in a Series of Technical Papers

12

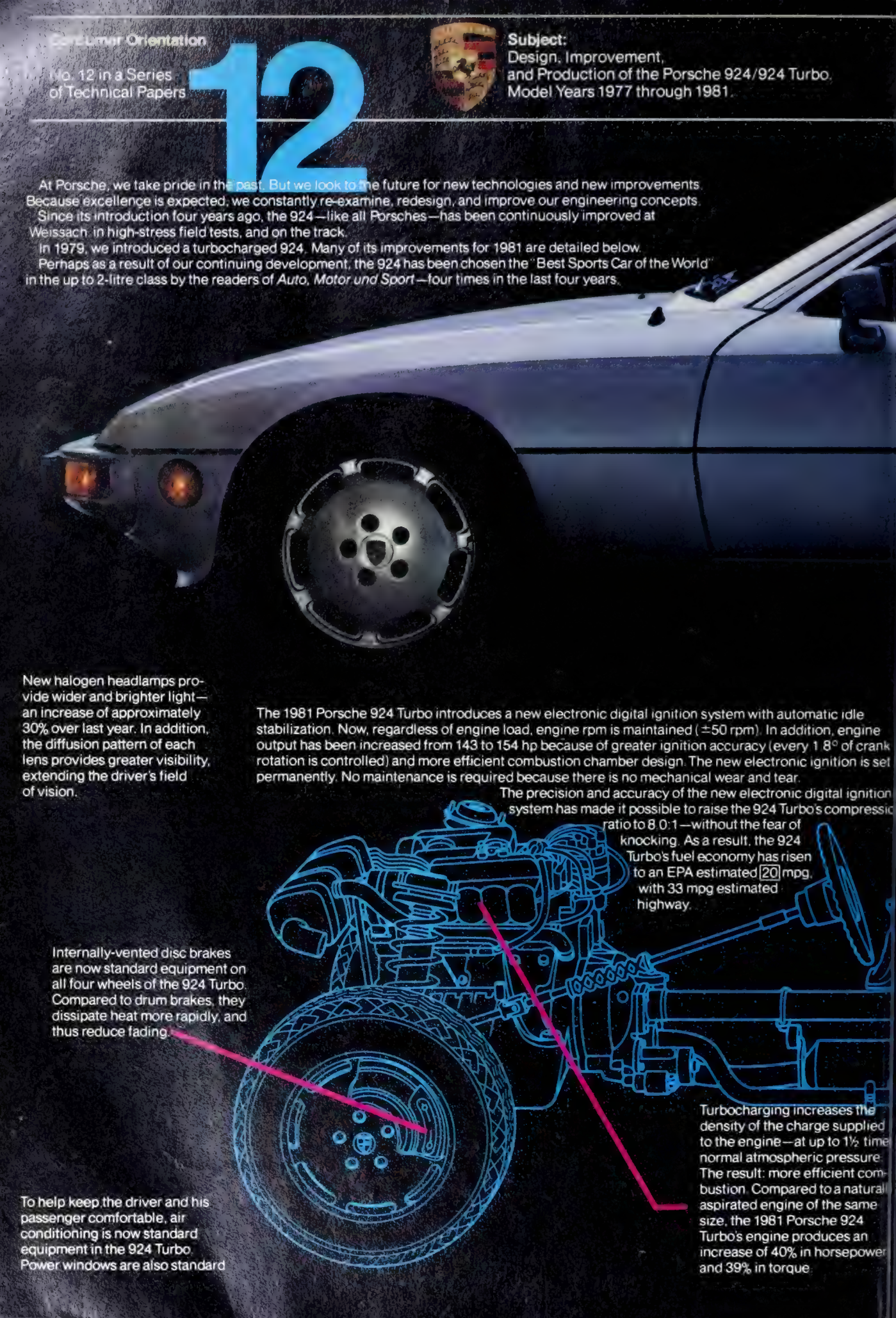
Subject:
Design, Improvement, and Production of the Porsche 924/924 Turbo. Model Years 1977 through 1981.

At Porsche, we take pride in the past. But we look to the future for new technologies and new improvements. Because excellence is expected, we constantly re-examine, redesign, and improve our engineering concepts.

Since its introduction four years ago, the 924—like all Porsches—has been continuously improved at Weissach, in high-stress field tests, and on the track.

In 1979, we introduced a turbocharged 924. Many of its improvements for 1981 are detailed below.

Perhaps as a result of our continuing development, the 924 has been chosen the "Best Sports Car of the World" in the up to 2-litre class by the readers of *Auto, Motor und Sport*—four times in the last four years.



New halogen headlamps provide wider and brighter light—an increase of approximately 30% over last year. In addition, the diffusion pattern of each lens provides greater visibility, extending the driver's field of vision.

The 1981 Porsche 924 Turbo introduces a new electronic digital ignition system with automatic idle stabilization. Now, regardless of engine load, engine rpm is maintained (±50 rpm). In addition, engine output has been increased from 143 to 154 hp because of greater ignition accuracy (every 1.8° of crank rotation is controlled) and more efficient combustion chamber design. The new electronic ignition is set permanently. No maintenance is required because there is no mechanical wear and tear.

The precision and accuracy of the new electronic digital ignition system has made it possible to raise the 924 Turbo's compressio ratio to 8.0:1—without the fear of knocking. As a result, the 924 Turbo's fuel economy has risen to an EPA estimated 20 mpg, with 33 mpg estimated highway.

Internally-vented disc brakes are now standard equipment on all four wheels of the 924 Turbo. Compared to drum brakes, they dissipate heat more rapidly, and thus reduce fading.

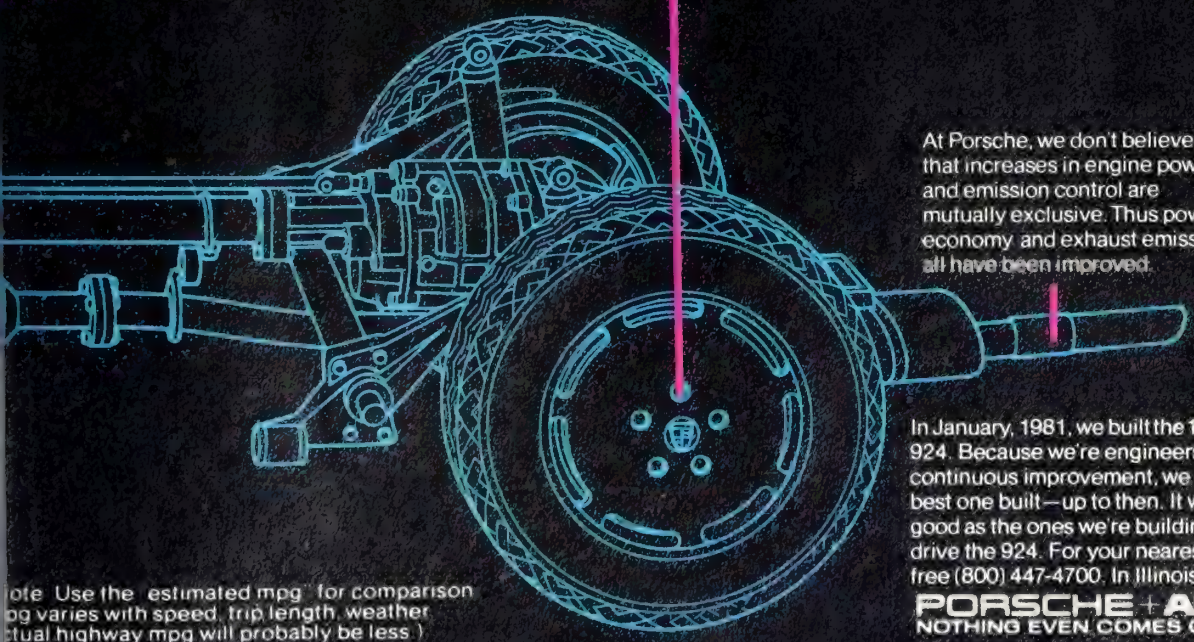
Turbocharging increases the density of the charge supplied to the engine—at up to 1½ time normal atmospheric pressure. The result: more efficient combustion. Compared to a natural aspirated engine of the same size, the 1981 Porsche 924 Turbo's engine produces an increase of 40% in horsepower and 39% in torque.

To help keep the driver and his passenger comfortable, air conditioning is now standard equipment in the 924 Turbo. Power windows are also standard

Porsche 924/924 Turbo

or more convenience in stop-
nd-go city driving, first gear—
hich is seldom used on the
ack—has been moved into
e H-pattern.

New five-bolt 6JX15 light alloy wheels maintain strength yet reduce unsprung weight. Fitted with high-speed 185/70VR15 radial ply tires, they improve both ride and tire traction.



At Porsche, we don't believe that increases in engine power and emission control are mutually exclusive. Thus power, economy and exhaust emissions all have been improved.

In January, 1981, we built the 100,000th Porsche 924. Because we're engineers, interested in continuous improvement, we know it was the best one built—up to then. It was almost as good as the ones we're building today. Test drive the 924. For your nearest dealer, call toll-free (800) 447-4700. In Illinois, (800) 322-4400.

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pg varies with speed, trip length, weather
tual highway mpg will probably be less.)

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Energy is plentiful, too, in this 7,600-square-mile urban and rural area because Detroit Edison generates more than 90 percent of its electricity from coal, our nation's most abundant and lowest cost fossil fuel.

Because of the vast Great Lakes watershed, Southeastern Michigan will continue to have oceans of fresh water lapping at its shoreline for years to come.

Detroit Edison can provide energy plus information to help you expand your present facilities or locate your new business or industry in Southeastern Michigan. Write: Area Development, Detroit Edison, 308 WCB, 2000 Second Ave., Detroit, MI 48226.

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Keeping the power in your hands.

The $12.5 billion market for goods and services that newlyweds provide seems like a huge, easy target to hit. In fact, only a few companies of significant size have a real talent for it.

The high cost of loving

By Richard Greene and Christine Miles

THE PLAINEST GOLD BAND at Zale jewelry counters these days costs $120 for hers, $125 for his. Ten years ago they cost $22 and $25. A five-piece place setting of Oneida's Paul Revere Community Stainless flatware now costs $27.50, 3 times what it cost in 1971. A two-quart Farberware stainless pot that was $10.88 is now $26.99. If there's a lot more cash around than there used to be, there's also bracket creep and the so-called marriage penalty on joint income tax returns to soak it up. Who but the rich, then, can afford to get married and set up housekeeping anymore?

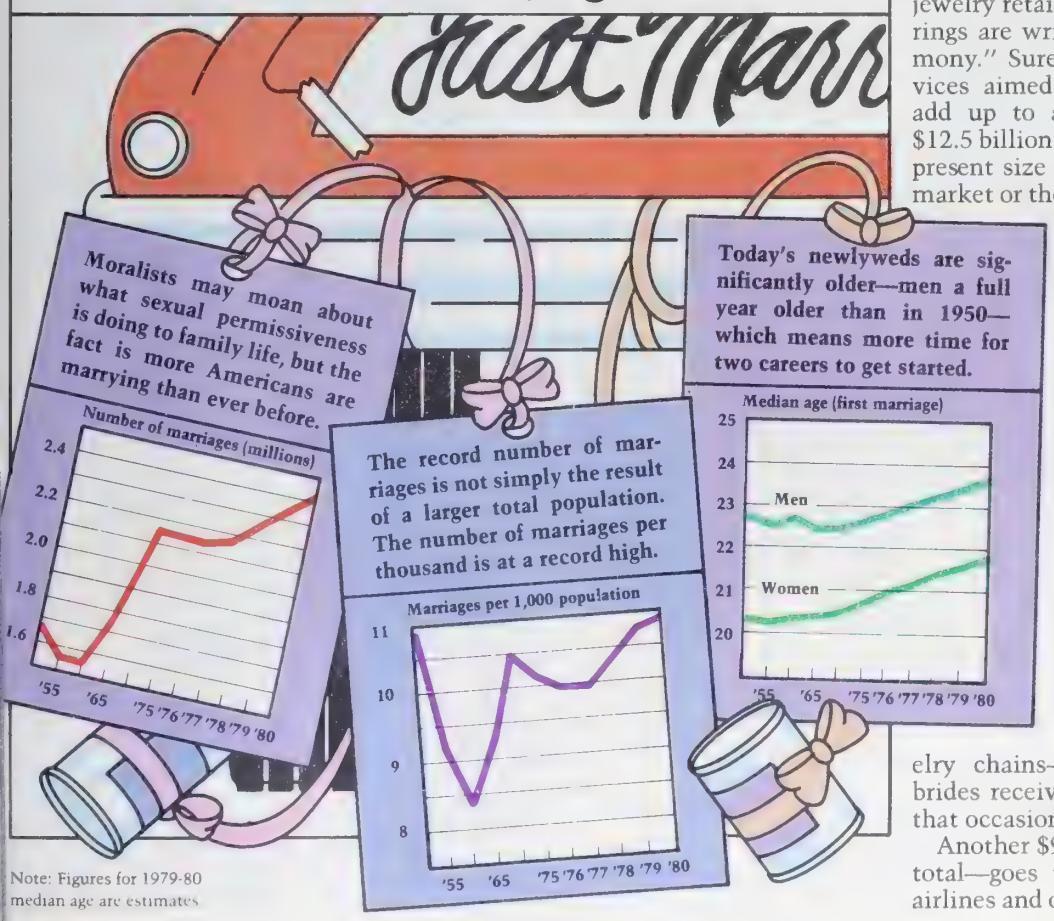
The answer, plainly, is nobody, but 2.4 million people got married in the U.S. last year anyway. That's more people saying "I do" than ever before in the nation's history, more even than in 1946, after millions of men came home after nearly four years of world war to marry their sweethearts. This year, despite the economic odds, despite even the Moral Majority's fears about what sexual permissiveness may be doing to the fabric of family life, the number of people getting married in the U.S. is expected to hold at the record 2.4 million.

"It's a great market for us," says Larry Tanner, merchandising vice president of Zale Corp., the largest jewelry retailer in the country. "Why, rings are written right into the ceremony." Sure enough, goods and services aimed at newlyweds seem to add up to a sizable market—some $12.5 billion at retail. That's about the present size of the computer services market or the cosmetics industry, and 4 times the size of the movie business.

But the fact is, few companies have demonstrated Zale's sure touch in selling to that market, and none has an easy time of it. For one thing, large pieces of this fragmented market belong to vendors so small as to be all but invisible as business entities. Of the $12.5 billion, for example, $575 million—4.6%—goes for the rings alone. It is Zale's good fortune—and Gordon's and Kay's, the other truly national jewelry chains—that 99% of all first brides receive new wedding rings on that occasion.

Another $936 million—7.7% of the total—goes to hotels, travel agents, airlines and others that make up what

More of the marrying kind



Note: Figures for 1979-80 median age are estimates

might be called the honeymoon industry. Here, the problem is identification as well as fragmentation. Newlyweds aren't that easy to spot in advance and send a sales message to. Eastern Air Lines spent a modest $100,000 or so last year aimed at honeymooners, mostly in brides' magazines and travel agent brochures. United Air Lines has virtually dropped honeymoon-angled advertising altogether. "We can't identify the market clearly," explains a UAL spokesman, "so we don't know if the advertising is accomplishing anything." Even retailers have a problem. "You can't tell when a bride comes walking into your store," says George Morrissey, publisher of *Modern Bride*. "She isn't wearing a wedding gown and veil yelling, 'I'm getting married.' "

You would think that, just as R.L. Polk & Co. built a huge mailing list rental business by picking up names of new car buyers from state motor vehicle bureaus, someone would have compiled huge lists of people applying for marriage licenses. A lot of such checking goes on, but virtually all of it is done by small outfits with mostly local users.

For the most part, those local users are caterers, formal-wear renters, florists, photographers and others directly connected with the wedding ceremony itself. Some segments of the market are remarkably stable. The apparel industry as a whole, for example, is notorious for its volatility, but of 35 manufacturers of bridal gowns in existence at the end of World War II, 30 of them are in business today. For others, like photographers, weddings are only a part of their business. But collectively, they share in a huge part of the bridal market—some $4.6 billion last year, or 36% of the total. Like the ring business, it's mostly a market tended by small, almost invisible hands, a lot of them leafing through local newspapers for announcements that provide leads. Big national outfits find it hard, but not impossible, to do the same. Ethan Allen, the furniture maker, attributes more than 8% of its estimated $300 million in sales to the newlywed market and expects its local distributors to be on top of the market by, among other things, following up specifically on newspaper society news.

The remainder of the newlywed market is no mean prize—some $6.4 billion, or 51% of the total—and it goes into the vast domain of home furnishings and household equipment. To the makers of furniture like Ethan Allen, and manufacturers of appliances, rugs and carpeting, china,

Something for every purse

As the wedding gift-giving season neared its peak last month, FORBES contacted managers of bridal registries at major department stores in New York, Atlanta, Houston, Chicago, Seattle and Los Angeles to learn what merchandise was proving especially popular. At right, the result of that informal survey. The big sellers this season include something for every purse, ranging from $9 Corning Ware items to a $375 copper fish poacher.

1. *Revere 3-quart covered buffet pan, $87*
2. *Silver-plated breadbasket by Leonard, $37.50*
3. *Revere 1-quart saucepan, $54*
4. *Braun's automatic drip coffeemaker, makes 2 to 12 cups, $80*
5. *English brass candlesticks, $117 a pair*
6. *"Lismore" cut crystal decanter by Waterford, $138*
7. *Matching "Lismore" wine and champagne glasses, $31.75 each*
8. *Wedgwood's "Runnymede Cobalt," 5-piece place setting, $165*
9. *Oneida's "Allouette," silver plate, 5-piece place setting, $42.75*
10. *Dansk teakwood cheeseboard and knife, $35*
11. *"Flamestitch" queen-size bed linens from Martex, $49.50 per set*
12. *Potbellied copper kettle, $20*
13. *Silver-plated candlesticks by Wallace, $34*
14. *Melior 8-cup coffee pot, $75*
15. *Assorted Fieldcrest hand and bath towels, $11 to $15*
16. *Mikasa's "Margaux," 4-piece place setting, $34.95*
17. *Revere 10 1/2-inch open skillet, $63*
18. *Revere large oval pan, $75*
19. *Lacy nightgown from designer Eve Stillman, $85*
20. *Revere 1-quart saucepan, $19*
21. *Revere 3-quart saucepan, $28*
22. *Deep-dish copper fish poacher, $375*
23. *Oval copper casserole, $176*
24. *Cuisinart food processor with expanded feed-tube, $160*
25. *Corning Ware cooking dishes in "French white," from $9*

Merchandise courtesy of B. Altman & Co. and Macy's N.Y

glassware, tableware and such, it's a heavenly market in one way and a hellish one in another. The beauty part is its concentrated size. Consider the arithmetic: 2.4 million people married last year translates into 1.2 million marriages, which, divided into a $12.5 billion total market, works out to an average of over $10,400, 51% of which is $5,300 in spending power per couple. A large part of that total, of course, is put into their hands by fond parents or comes from wedding gifts. But no matter. There it is. Behind it, of course, is credit, bolstered by the fact that, with more than 60% of all newly married brides now holding down full-time jobs, the joint gross income of a pair of college graduates can easily top $30,000 a year.

The hellish part is how quickly that initial nest egg is spent—how quick, in effect, is the transition from newly married to just plain married. In so narrow a window in time, it's no easy matter to make a sale or build loyalty to a brand or a store.

To build store loyalty, retailers have, in addition to their usual advertising messages, one preeminent tool—the bridal registry. History does not record the first retailer to think of inviting a prospective bride to sign up and leave behind a list of things she would like to receive as gifts. Whoever it was, though, at once reduced chances for giving unwanted or redundant gifts and at the same time gave the store solid information for ordering inventory. A brilliant move.

Of the more than 5,000 bridal registries now open at retail outlets across the country, probably no one has pushed the idea further than Woodward & Lothrop (1980 sales, $308 million), the powerful retailer in the Washington-Baltimore area. "Why should a bride chase around town?" asks Philip O'Gulian, director of services for "Woodies." "We can provide all the services she needs—gift lists, studio photographs, formal wear, wedding cakes, flowers and even engraved invitations—all under one roof." Woodies promotes all these services through in-store displays in the bridal-oriented parts of the store—in effect, cross-referencing the customer—and has gathered many of the services in a boutique-like floor plan on the fifth floor. In the two years it has been going, traffic on the fifth floor of the downtown Washington store alone is up 60% and related revenues are up 20%.

Some Lenox china and crystal bestsellers
From adolescence on, an inescapable message: Want love? Buy Lenox.

Others have no comparable device, worse luck. General Electric, for example, is heavily promoting its appliance business these days with an umbrella theme of "We bring good things to life" and assuming it will get its share of the newlywed market that way. According to *Modern Bride*, 87.5% of all brides buy electric irons, 86.3% toasters and 62.6% blenders. Obviously, shotgun promotion remains more cost-efficient for large firms than most rifle approaches.

Among all the companies aiming to be a member of the wedding, a very few stand out as preeminent marketers. Perhaps the best of these is Lenox, Inc., the china and crystal company. From the time that an American female turns adolescent she is sure to encounter an advertising pitch, starting with slick ads in teen magazines, that says "Love leads to Lenox." There may be only the tiniest hint of a plate on the page. After all, how many high school girls really give a damn about plates? But love . . . ah, love. Lenox goes into high schools and sponsors table-setting contests in home economics classes. The prize? Lenox tableware, of course. "No one goes after the pre-bride market like we do," boasts Lenox CEO John Chamberlin. "We've concentrated on making the wedding business our core. Now we are playing off that to extend brand names and lines."

As a result, Lenox is now a good deal more than a china company, selling not only a third of the fine china in this country but a quarter of all the crystal stemware and almost 20% of all wedding rings. It added up last year to sales of $243 million, earnings of $19 million and a return on equity of 16.6%.

As Lenox is to china, so Oneida Ltd. is to flatware. This upstate-N.Y.-based $359 million (sales) firm is the largest manufacturer of stainless steel flatware in the country. Oneida had the good sense to pioneer in the growing stainless market even though it had a secure place in sterling and silver plate. It sold its first stainless in 1950. Thus, when the price of silver began to go through the ceiling in 1979, it was not a one-line company in danger of being priced out of the market. Instead, Oneida had come up with a technique for producing traditional silver patterns in the more-difficult-to-work steel. The result was that Oneida wound up getting top dollar for stainless. Says Robert Sanderson, president of Oneida's Silversmiths division, "Anyone thinking of selling beautiful stainless for $350 ten years ago would have been put away."

In their respective fields, Oneida and Lenox share one marketing technique, that in large measure explains both their success and the difficulty smaller outfits have in duplicating it. Both of them pride themselves on the number of lines they make that are "open stock." Let a bride, or her mother, break a plate or carelessly scrape a fork into the garbage and chances are good that she will be able to replace that plate or fork in the same pattern, even years after it was purchased. It's obviously costly to keep patterns available long after their earliest—and longest—production runs. But as a marketing angle—ask any butterfingers—it has few peers.

There is one long-range marketing tactic available to everyone, despite the difficulties in zeroing in on the newlyweds. That's to give satisfaction to all and hope for the beginnings of brand loyalty. "Many of these honeymooners have never taken a big airline trip before," notes Bruce Noonan, a specialist in vacation advertising for Eastern Air Lines. "If we can get them to Eastern and convince them Eastern treats them well, then in five years they'll come back to us when they want to take their kids to Disney World." ■

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The world's largest ranch and the world's largest oil company are happy with their 48-year-old drilling lease, but two King Ranch heirs are suing.

In the best of families

By Anne Bagamery

THE BEST TEXAS STORIES, like Edna Ferber's *Giant*, are about family and oil and cattle and money. These days it is wise to add lawyers to Texas stories, like this one.

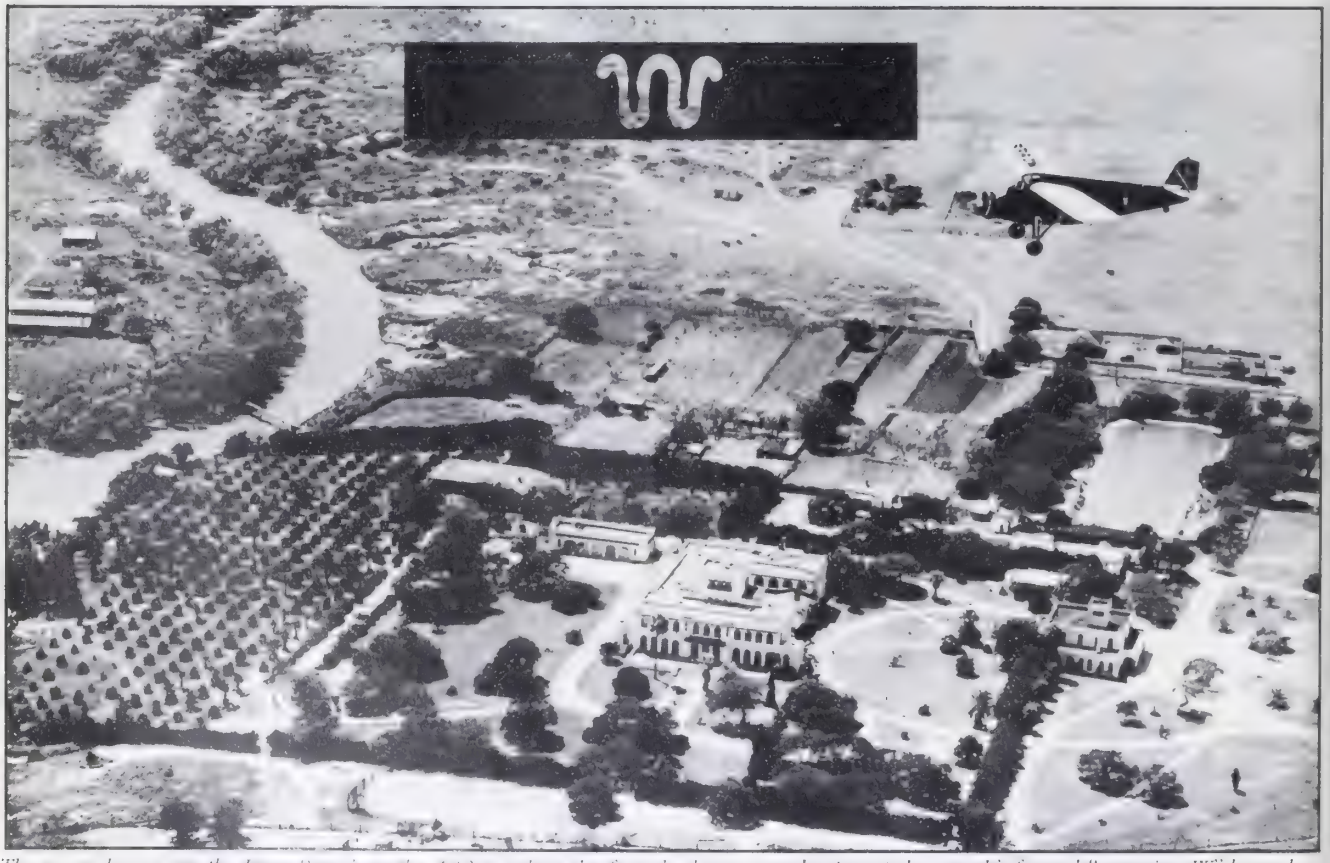
South Texas' fabled 860,000-acre King Ranch entered the oil business in earnest in 1933, after the death of Robert Kleberg Sr., the son-in-law of ranch founder Richard King. Kleberg, a lawyer-turned-cattleman more interested in drilling for water than oil, had been reluctant to enter a business he didn't know well. But his son Robert Jr., desperate for cash during the Depression in order to continue the cattle-breeding business that had been his grandfather's dream, quickly signed a deal giving Humble Oil & Refining Co., now Exxon U.S.A., exclusive drilling rights on the ranch.

In some ways the deal was standard for the time. Humble assumed all exploration risks and costs and the Klebergs retained a one-eighth royalty on the gross proceeds of production. But the deal was unusual in that it gave a single company exclusive rights to a huge parcel of land and 20 years to drill. In the 1930s other landowners were writing five- or ten-year leases in order to get the oil and royalties flowing as quickly as possible.

In 1953 Humble and the Klebergs negotiated two lease extensions—one for 10 years, a second for 50 years in exchange for a one-sixth royalty; large for its time but puny compared with the one-quarter royalties landowners get today.

Did the Klebergs settle for less than they might have? One oilman familiar with the deal observes that "you couldn't write that deal now," but explains: "In the old days, landowners were happy to let the oil company handle everything." King Ranch attorney Leroy Denman Jr. says his clients are satisfied. "These things are always a business trade, with no clear winners and losers," says Denman.

But two Kleberg heirs are charging in separate lawsuits that there were losers all these 50-odd years—the King Ranch and themselves. One of the heirs, Robert R. Shelton, charges in his suit that Exxon failed "to explore and develop properly the leased



The main house on the King Ranch in the 1950s, when the first deal was struck; (inset) the ranch's famed "running W" brand
Where the Klebergs raised cattle and Exxon found oil—and the family fell out over both.

premises" and "to properly market gas produced." He also claims that Exxon "failed to exercise either reasonable prudence or good faith in the manner in which it computed severance tax" to distort royalties.

What is more, Shelton and his half-brother Belton Kleberg Johnson—both independent ranchers and businessmen now— are suing their relatives claiming they failed to police the oil company, resulting in lost royalties. Shelton also claims he was forced out of the family corporation—King Ranch Inc., owned by over 50 members of the Kleberg family—when he tried to blow the whistle.

The stakes are sizable. Shelton's attorney estimates his client's loss at over $10 million. And Johnson's claims could amount to some $50 million since he was a one-eighth partner in King Ranch when he broke with the family in 1974 in a dispute over his share of uncle Robert Kleberg Jr.'s estate.

What is known for sure is that Exxon drilled its first successful well on the ranch in 1945, 12 years after the original lease was signed, and hit the second-largest reserves of oil and gas in Texas. After that, the company drilled five or six new wells a year and produced revenues of $60 million for itself and $9 million a year for the family. Under the new lease contract, which runs until 2013, Exxon has been drilling two or three new wells a year, producing in recent years $20 million a year for the Klebergs and $100 million for the company.

Robert Kleberg Jr. with racehorse High Gun
He wrote the original deal.

From there it becomes a matter of argument. One Exxon district manager, who requests anonymity, allows that the company put "about 50% effort" into exploring the ranch property because other landowners were pressing it to "get in and out in a couple of years." Attorney Denman points out, however, that the kind of quick shot that is customary on smaller acreage wasn't practical on a piece of land the size of King Ranch, where detailed exploration is required.

Exxon won't discuss the lawsuits which are pending in the Harris and Kerr county courts, but the company and King Ranch are trying to have them dismissed, claiming that the heirs can't challenge a contract to which they are no longer a party.

Joseph Jamail, the Houston attorney representing Shelton, is pressing his case, hoping for a full-scale trial by the end of the year. "The defendants [Exxon and King Ranch] say they have a good working relationship," says Jamail. "We say it's a working relationship, but not very good."

And ranch attorney Denman says simply that "These things happen in big, successful families." They do, of course, but in Texas the stakes get up to $60 million. ■

Mexico, of course, is booming. It is also borrowing. But there's no cause for alarm, insists one of its top bankers.

"Our record is hard to match"

By Jerry Flint

MEXICO'S ECONOMIC standing in the world has grown enormously in the four years since it announced that it had vast reserves of oil. And so has the size of its debts, as the world's bankers have fallen over themselves rushing to Mexico City. By the end of this year Mexico's borrowings will rival Brazil's: $40 billion in government debt, possibly $20 billion more to its private sector.

Isn't that getting to the worrisome level, FORBES asked Agustin Legorreta, the chairman of $14 billion (assets) Banco Nacional de Mexico (Banamex)? "What's too much or too little?" Legorreta replies softly. "If we consider the size of others' debts—Poland, with its troubles; Brazil, which lacks oil—Mexico qualifies as a better credit risk than all countries in the process of developing."

Legorreta, whose bank is Mexico's second largest, promises more borrowing to come. Mexico's internal rate of savings, even with oil money flowing in, will not suffice for the rapid pace of the country's development, he says. And so it will be a net borrower—of $5 billion a year on average—for many years.

Mexico's oil and gas export revenues are now running at $18 billion annually, and the country will be paying out $3.5 billion a year to import food while it uses the rest, plus the debt, to push its headlong drive to industrialize. But the problem with sudden oil wealth is that, like hard rain on sunbaked soil, it often floods an economy that lacks the infrastructure to absorb it.

That may happen elsewhere, says Legorreta, but may be avoided in Mexico. "Let me mention a difference from the other oil exporting countries," he says, repeating a Mexican point of pride. "Mexico had made great strides in developing and diversifying its economy without the oil. Our economic base is much stronger, especially as compared with Arab countries or Venezuela. It is not due to the oil that we are suddenly becoming

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"The oil revenues are an enormous help," explains the 45-year-old banker, "because they reduce to a substantial degree a major problem—lack of hard currency for importing the capital goods necessary for development."

Having made that declaration of confidence, Legorreta—whose Banamex operations include ownership of a bank in California and management of the International Mexican Bank consortium in London—concedes that inflation is running at 30% in his country this year and that recent talk of peso devaluation is not farfetched.

"Mexico has adopted a sliding peg system that, if continued at the rate we've been observing in the first four months of the year, will tend to bring down the peso 10% or 11% as compared with the dollar. Probably the system could avoid a major devaluation in the near future," he says. "However, if we keep seeing such inflation differences with the U.S., even the system of sliding the peso will not take care of the problem."

The real solution? "Bring down inflation," he says. That won't be easy, of course, because Mexico has no intention of slowing its economic expansion. "It's going to demand a lot of discipline from the politicians and the businessmen," says Legorreta. Has anyone ever managed that? "The Germans," he responds with a smile, which gives you some idea of the easy confidence of Mexican businessmen these days. That spirit has already impressed international bankers. And now, with the advent of the Mexico Fund *(see story, p. 98)*, it may do the same for U.S. equity investors. ■

Agustin Legorreta of Banco Nacional de Mexico

Don't compare Mexico to the Arab countries or Venezuela.

What is black and white,
influences the buying decisions of 8 out of 10 women,
cuts the cost and time of marketing your product
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Source: Crossley Surveys, Inc.

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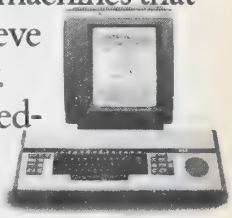

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The new closed-end fund specializing in Mexican stocks has a beguiling story to tell. The values, though, may turn out to be better tomorrow than today.

Better mañana?

The Funds

By Richard Phalon

IT WAS MARIACHIS AND MARGARITAS when the Mexico Fund—the first U.S. closed-end investment company to specialize in Mexican stocks—made its market debut the other day. Demand was brisk enough for underwriters (Merrill Lynch, Bache and Salomon Brothers) to raise their sales sights $48 million above the $72 million they were committed to raise.

That's an auspicious start. But what next?

Many new closed-end funds slip to a discount below net asset value. Would the Mexico Fund also be dogged by the same pattern? Would astute investors wait out the market, hoping to buy it a couple of months hence at, for example, 10% to 15% below the $12 a share at which it was put on the block? Or would the fund, because of its highly specialized mission, be one of those rare birds that soar to a premium? "All we can do is support the market and pray," says one underwriter who helped put the deal together.

Time would seem to be on the side of investors patient enough to play the waiting game.

Among the handful of people who follow the crotchets of the closed-ends, it is hornbook lore that most investment company shares are a better buy after than at an underwriting. "It depends on how much underwriters want to support the market," says Thomas J. Herzfeld, president of the Miami-based Thomas J. Herzfeld & Co. "But in the first six weeks you usually see any premium disappear and in the second month you usually begin to see a discount."

Heizer Corp. is one example of what Herzberg means. This closed-end fund specializing in emerging growth companies came to market early last month at $17.50 a share, and is selling at about 15⅝ a share—some 17% below the estimated net asset value of $18.86 a share. The Nautilus Fund is another example. It went public in February 1979 at $15 a share, and within three months had slipped to a discount that hung on until the summer of last year, when Nautilus shot to a premium on the strength of its holdings in Apple Computer, MCI Communications and other, suddenly red-hot, high-tech issues. By early this year, though, Nautilus had once again slipped to a deep discount, which has only lately begun to narrow.

The Bolsa in Mexico City
Demand-pull and pass-on profits.

Why? Maybe it's how things get sold on Wall Street. For every share of Heizer sold, the underwriters collected a commission of $1.25. For every share of the Mexico Fund they moved, the underwriters took in 79 cents. In the aftermarket, though, commissions on a round lot of either stock might run to 40 cents a share. "Many brokers will sell closed-end stocks enthusiastically when there are big commissions involved," says Tom Herzfeld, "but when the same stocks go to a discount and are a better buy, they don't get recommended, possibly because the incentives aren't there."

Expert Herzfeld is quick to note, however, that the Mexico Fund may get more support from its underwriters than most closed-ends. It took two years to work the idea of the fund through the bureaucracies on both sides of the border. It is a cannily engineered device, which, through a trustee, gives non-Mexicans the same ownership, but not voting rights, as Mexican nationals. Mexico sees it as a way to add depth and liquidity to a highly volatile Bolsa badly in need of both. In a way, the touchy national honor is involved and the underwriters will presumably do the best they can in the aftermarket to keep their reputations green south of the border. Strong sponsorship never hurts any stock and Tom Herzfeld notes that "specialization—anything that makes a fund different—also tends to narrow the discount."

Also in the fund's favor: It is getting into the game when Mexican stocks are comparatively cheap. The Bolsa has backed off 29%, to 1228, from its record high of 1729 two years ago. Earnings, on the other hand, force-fed by the single-minded drive to industrialize, have been expanding at a net inflation-adjusted rate of 20%. John Rhoads, a U.S.-born naturalized Mexican who heads the brokerage firm of Casa de Bolsa Interamericana in Mexico City, says the Mexican market is selling at 5.2 times this year's projected profits, while major commercial banks such as Bancomer are going for as little as 2.5 times projected earnings.

One reason for those modest multiples, says Rhoads, is the pull of high interest rates—as much as 30% on one-year time deposits—on institutional investors. Those rates, of course, reflect the equally high rate of inflation Mexico is willing to absorb as part of its hurry-up growth plan. "It's a demand-pull economy," says John Rhoads. "Companies can safely pass increased costs to their customers."

Like Mexico itself, the Mexico Fund has a beguiling story to tell. For investors who like to buy at a discount, though, this may be one time when mañana may be a strategic move whose time has come. ■

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"That takes the biscuit!"

There are always mutual funds nobody wants. But recent slow movers offer a chance to profit if interest rates decline.

Bond funds, anyone?

The Funds

By Thomas Baker

IN EVERY FAMILY of mutual funds, there's always something nobody wants, and over the past five years it has taken the hardest of hard sells to move bond funds. During that period, according to Lipper Analytical Distributors, these investments brought a meager 27% cumulative return. That's less than one-fourth the average industry return and one-fifth the showing of growth-stock portfolios.

Not surprisingly, bond funds haven't been selling. Investors bought only $800 million worth of corporate and municipal long-term funds in the first quarter of 1981. At the same time, they poured $2.9 billion *per week* into money market funds.

Still, even black sheep can have their day. With real rates of return on long-term issues at their highest level since the Civil War (FORBES, *May 25*), bond funds can be a shrewd play for small investors who want to lock in high yields and profit from rising asset values if interest rates decline. Aside from the normal mutual fund attributes of diversification and ready marketability, bond funds are attractive for another reason: bond-market selling methods make it hard for anyone with less than $100,000 to get the best rates. The funds can do that, however, and they typically charge management fees of only 0.5% per year.

Bond managers don't report any flood of new money—despite some predictions that prices are bottoming out. "Demand may come if rates actually start down," says one fund man. "Our customers tend to lag the market." Once net asset values start to climb, fund groups may start promoting their bond-related wares, and that could help sales too.

All funds, of course, are not created equal. "If an investor is convinced interest rates have peaked, he should find a fund as close to fully invested as possible," says Charles Smith of T. Rowe Price. "When the market runs, it gets the full pop." His own New Income Fund, however, is currently staying with 35% cash, though that's down from 50% in March.

Beyond that, funds with the largest percentage of long-term bonds will probably move up faster if rates decline. Check the average maturity figure, but remember it can be misleading: A portfolio with 50% in 40-year telephone bonds and 50% cash has an average maturity of 20 years, but it wouldn't perform as well in a rally as an account with all 20-year bonds.

Another useful statistic is the average price of bonds in a portfolio: A low average price means more leeway for a big rally. "It doesn't necessarily mean that the fund will go to par, but it does mean that if there's a 15-point rally you're not going to be underperforming the market anytime soon," says Ted Busboom, manager of Investors Selective Fund. "With a par portfolio, you'll start underperforming when it hits around 110 or 112."

In the case of the municipal funds, performance has been a bit more discouraging than corporate portfolios. But tax-exempts are now yielding 70% to 80% as much as taxables, Busboom points out, and he expects that ratio to stay firm until the property and casualty insurance companies reenter the markets as big buyers.

What's the best way for an investor to get these statistics and size up a fund's strategy? A prospectus will help, but its information is sometimes dated and not always clear. Some fund heads offer another suggestion: Speak directly to the portfolio manager. Most investment houses have toll-free numbers, and the guy who runs the bond fund may be delighted to hear his telephone ring. ■

Comparing the black sheep

Note that some of the bond funds below have large cash reserves, others relatively small ones. If you think interest rates have already peaked, buy a fund that is heavily invested; if you think rates still have some way to go on the upside before coming down, you'll prefer a fund with enough cash on hand to take advantage of a further decline in prices.

Fund	Yield 3/80-3/81	Total assets (millions) 12/31/80	Net asset value per share 5/28/81	% of portfolio in cash 3/31/81
Corporate				
Amer Gen High Yield Investment	13.5%	$236.7	$9.05	10%
Fidelity Corporate Bond Fund	12.8	92.6	6.34	7
Investors Selective Fund	12.9	529.0	6.66	3
John Hancock Bond Fund	12.3	268.6	12.75	15
T. Rowe Price New Income Fund	13.5	363.7	8.00	34
Municipal				
Dreyfus Tax Exempt Bond Fund	8.9	723.7	10.07	0
Fidelity High Yield Muni Bond Fund	9.0	153.0	10.34	31
Kemper Muni Bond Fund	9.0	170.4	7.17	0
T. Rowe Price Tax Free Inc Fund	8.8	256.0	7.78	2
Federal				
Vanguard Fixed Inc GNMA Portfolio	NA	24.7	8.24	15
Fidelity Government Securities	13.0	64.9	8.98	0

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Far from the big-time centers of the rag trade, Oshkosh B'Gosh takes its overall success with good-humored calm.

"Fashion is fickle"

Oshkosh B'Gosh President Charles Hyde in his 1917 plant
An accidental success after 86 years in the trade.

By William Harris

THE BIGGEST THRILL in Oshkosh," recalls Milton Berle, "is to go to the train station and smell the luggage." Oshkosh, Wis., a town of 50,000 set at one of the two junctions of Lake Winnebago and the Fox River, has been the butt of many a vaudeville joke—the quintessential hick town with the Indian chief's name. "I know Oshkosh," quips Henny Youngman. "I spent a week there one night." In bygone days the Oshkosh Trunk Co. capitalized on that name recognition, establishing itself as a premier U.S. luggagemaker. Today, as a manufacturer of brightly colored denim and cotton overalls, Oshkosh B'Gosh Inc. is cashing in on—and somewhat living up to—that hick image.

Tiny, family-controlled Oshkosh B'Gosh (sales, $42 million) has been making unstylish work clothing for the past 86 years. But denim overalls, which once were the uniform of farmers, railroadmen and Walter Brennan, are now children's fashion. Millions of kids are running around in durable, loose-fitting, multipocketed garments, most of them being Oshkosh B'Gosh overalls. The real joke is that while such giant competitors as $2 billion (sales) Levi Strauss beat their fists trying to get a piece of the kids' overalls market, the success of Oshkosh B'Gosh has been almost accidental, even reluctant.

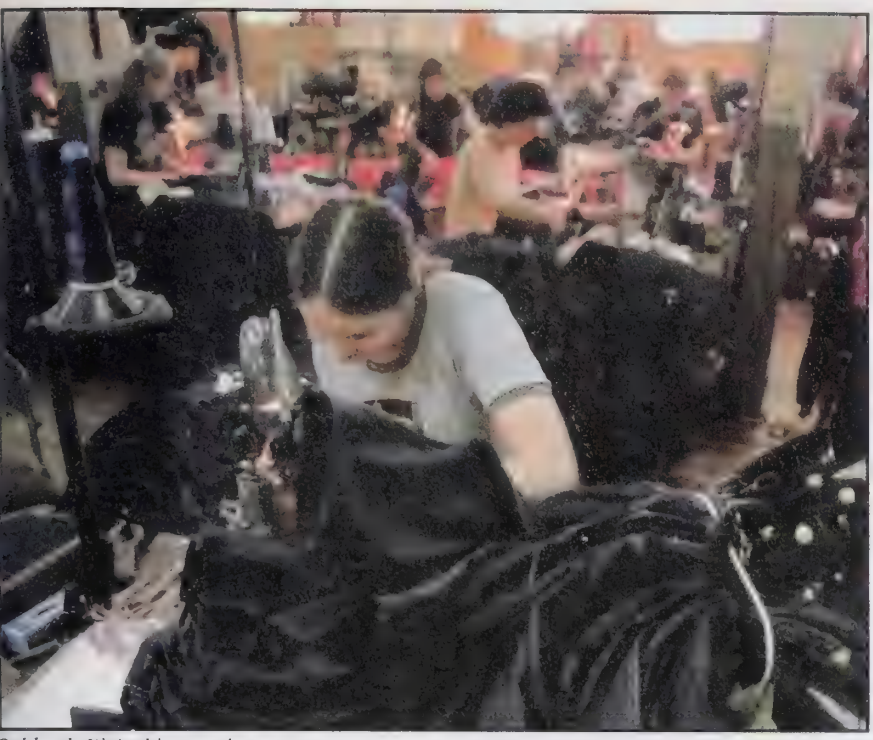
"Let's just say we've been dragged along by the consumer demand for kids' overalls," admits Oshkosh President Charles F. Hyde. "We've reacted, but that demand was not in our corporate plans." The company has made peewee overalls since the turn of the century, but it took another company to show Oshkosh that there was a national market for the children's product.

In 1968 the Oshkosh-based mail-order house Miles Kimball Co. included a pair of Oshkosh B'Gosh children's overalls in its Christmas catalog as a novelty item. Oshkosh itself was on the verge of discontinuing the small-fry line, but thought better of doing so when it saw the catalog response. Some 15,000 orders came in that year, and the folks at Oshkosh, who until that time had distributed 90% of their overalls only within a 600-mile radius, began scratching their heads. "If overalls are that popular for Miles Kimball customers," recalls the tall, spare, 61-year-old Charles Hyde, "why shouldn't retailers find some sort of response for them? Maybe our traditional outlets—men's and boys' clothing stores—are the wrong outlets."

Good thought, by gosh, but Hyde didn't know exactly what to do next. So he imitated. Oshkosh B'Gosh sent out direct mail solicitations, just like Miles Kimball, to hundreds of children's clothing stores across the U.S. And the orders poured in.

Today there is such demand for Oshkosh B'Gosh overalls, selling at a retail price of $15, that the company—which recently increased production by 65%—cannot make enough to satisfy retailers. All stores are on allocation. And though many of Oshkosh's 7,000 customers—including Bloomingdale's and Macy's—complain about late shipments, they are begging for more product. Oshkosh has become a leader in children's apparel, right up there with the likes of Healthtex, Izod, Blue Bell and Levi Strauss.

It has also become the profitability leader of almost any industry. Since 1976, Oshkosh sales have jumped 96%, to $42 million. Earnings have grown 122% in the same five-year period, to 1980's $3.3 million, and, with little debt, Oshkosh's return on equity has averaged 21%. While unit sales of adult overalls have been declining steadily since the 1960s—along with the diminishing number of farmers and railroad workers—the kiddie version, along with other children's wear, now accounts for 44% of Oshkosh sales and about 50% of operating profit. The kids' wear is spinning off enough cash this year to finance the company's inventory build-up for the fall retailing season, while most other clothingmakers must borrow at 20% to finance their back-to-school inventories.



Oshkosh B'Gosh's speedy seamstresses

Kiddie clothes are faddish, but workwear will be around.

Still, there's something about Oshkosh B'Gosh as a corporate entity that immediately brings to mind all those hick town chestnuts. Perhaps it's the sight of Hyde's ground-floor office, with its vinyl-upholstered furniture and a view that's always blocked by trucks from a local dairy. Or the story of how Oshkosh cracked the high-volume, high-class department store market with its children's overalls. Oshkosh B'Gosh, remember, sells work clothes, which department stores traditionally hung in their basements, near the lawnmowers and power tools. While Hyde cogitated in the mid-1970s, department stores came to him with orders for the kid stuff. Their customers had heard of and wanted Oshkosh B'Gosh. "We gave our first order for kids' overalls directly to the company in 1974," remembers Barbara Kanaya, children's merchandise manager at Seattle's Nordstrom's. "Later, we found out Oshkosh had a sales rep in our territory. He just never came by."

As the demand for the Oshkosh B'Gosh kids' overalls snowballed, Hyde beefed up his sales force. He did not, however, contract out piecework sewing, as other clothingmakers might have done. Hyde wanted quality control, not leaping sales figures. All Oshkosh clothing is still manufactured much as it always has been. Fabric, 120 layers thick, is cut by hand, then stitched together at breakneck speed by a team of seamstresses.

Hyde didn't increase Oshkosh's production capacity until 1979, financing two new plants completely out of cash flow. "We wanted to make sure this was not a flash-in-the-pan development," says the conservative and fashion-leery Hyde. Oshkosh B'Gosh finally opened its first Seventh Avenue showroom in February.

So is Hyde, at last, picking up the tempo? Well, yes and no. This fall, for example, the company will distribute infants' overalls with a snap crotch. Changing a baby won't involve disrobing. Hyde smiles toothily and admits he didn't think of that feature; his customers asked for it.

In a trade that is so fashion-conscious and hype-ridden, there is both charm and seasoned judgment to Oshkosh B'Gosh's "aw shucks" approach. Oshkosh, first of all, is a secure, family-run company. Most of its 400 or so stockholders are Fox River valley locals whose families bought their shares back in 1929, eight months before the stock market crash. They earned $8.63 a share last year on the thinly traded stock, and received a $2.35-a-share cash dividend to boot. Although Oshkosh B'Gosh—traded by a handful of marketmakers in the Midwest—carries a price/earnings ratio of only 4, Hyde has no worries about the company's being bought out from under him. He is a member of the Wyman family, which, with another Oshkosh clan, has held a 50% controlling interest since 1934. Earl Wyman, Hyde's father-in-law, was chairman right up to the day he died, at 83, in 1978.

By the time Earl Wyman arrived on the scene as the company's fourth owner since its founding in 1895, the Oshkosh solid and "hickory striped" denim overalls were already well-known garments throughout midwestern farming communities. Wyman expanded the business into other work clothes, like painter's pants, work shirts and denim jackets. Oshkosh B'Gosh still makes these garments, in all sizes.

And Hyde has every intention of continuing to make them. "We've got to remain a well-thought-of name in utility clothing," he says. "That's what everything else is based on." He pauses, leans back in his chair and reveals Oshkosh B'Gosh's real appraisal of the fashion apparel market. "Yeah, maybe we can't satisfy the demands of our children's wear customers," he says, "but we do take care of all demands from our workwear customers. Children's isn't going to be around forever, because fashion is fickle. Work clothing *will* be around."

Although such garments as painter's pants are becoming hot items in the children's line, Hyde's attention is now on an aggressive magazine ad campaign to revive sales to adults, among whom Hyde shrewdly counts young adults. He is targeting both the college crowd and the workingman for his durable, unfussy and competitively priced workwear.

Meanwhile he is trying to broaden his children's market penetration with a full range of Oshkosh items—jumpers, skirts and T-shirts. And he's beginning to explore the virtually untapped European market.

Hyde is not ignoring the reports from children's merchandisers and buyers across the country who say that Oshkosh B'Gosh overalls will become as basic as the diaper. He's just recognizing that children have always worn some kind of overall and that the Oshkosh B'Gosh kids' overall success is already drawing competition from private-label garments.

When all is said, what makes Oshkosh B'Gosh attractive is that it has business acumen but avoids self-importance. When a company has lived for 86 years, its people can take the long view. And they can smile along with the rest of the country when Milton Berle cracks: "Oshkosh is so small that the Howard Johnson's there has only one flavor." It has only one overall maker, too, but the world has, nevertheless, found a way to beat a path to its door. ■

Mary Kay sales directors Chris Jackson, Judy McCoy and Kathy Halverson
Pink cars and mink coats help turn housewives into tigers of the cosmetics industry.

Apply pink Cadillacs and cash up front to the booming skin-care industry and you've got profits powerhouse Mary Kay Cosmetics.

The flight of the bumblebee

By Howard Rudnitsky

"THE REASON OUR SYMBOL is the bumblebee is that aerodynamically the bumblebee shouldn't be able to fly," smiles Richard Rogers, president and cofounder with his mother, Mary Kay Ash, of Mary Kay Cosmetics. "But the bumblebee doesn't know it, so it goes on flying anyway."

The symbol is apt. On paper the Dallas-based skin-care company shouldn't be able to fly as well as it does against such giants as Avon Products and Tupperware (Dart-Kraft). But it's soaring. Mary Kay's sales have shot from $54 million in 1978 to $167 million last year and should hit $250 million this year. Net income has climbed even faster—from $5 million in 1978 to $15 million in 1980—and will probably increase by about 50% in 1981. Mary Kay's return on a virtually unleveraged equity was an astonishing 48% last year.

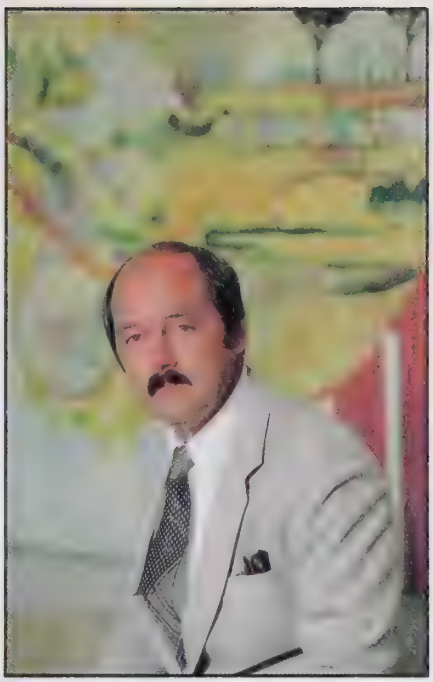
Equally impressive has been the aerodynamics of Mary Kay shares since early 1979, when they sold below 5. By the end of May they had increased to $66 a share, for a market value of $460 million—more than one-third of which is controlled by Rogers and his mother. At the end of May Rogers announced a 2-for-1 split.

Mary Kay makes skin-care products and sells directly to the customer, us-

ing Tupperware-like parties in the home. More than 120,000 "beauty consultant" salespersons, working on commission, give free facials and beauty tips and sell about $75 to $100 worth (retail) of merchandise per party. They are motivated by 2,500-plus sales directors and by Mary Kay herself, a blond-haired great-grandmother, who conducts the company's annual inspirational sales meetings in Dallas and hands out such incentives as free trips, diamond pins, mink coats and pink Cadillacs *(see box)*. And, of course, all sales are cash up front, of which $19 million remains in Mary Kay's coffers (up from $11 million at the end of 1980).

If Mary Kay is the heart of Mary Kay Cosmetics, her son is the operational brains. Rogers, at 37, has been working with his mother since the age of 6. He used to pack orders and count the week's receipts every Saturday when Mary Kay was a saleswoman for Stanley Home Products. After a short stint in the Marines, he briefly sold life insurance. Then, at the age of 20, he started Mary Kay Cosmetics with his mother after her second husband died of a heart attack in 1963.

Shrewdly positioned in the skincare end of the cosmetics market, where Avon was a minor factor, the company grew fast. By 1972 it was doing a volume of $18 million a year and increasing its sales force by 30% to 40% a year. But by the mid-Seventies the bumblebee took a nose dive; for a while it looked as if the aerodynamics engineers might have been right. Mary Kay's sales growth fell below the inflation rate from 1974 through 1977, and as recently as 1978 earnings before taxes were lower than they were in 1975. Hardly a superior performance for a company smack in the middle of a growth business (FORBES, *May 25*). Was the company in a maturity crisis, as was Avon in the 1970s—only at an earlier stage?



Mary Kay President Richard Rogers
Consider the bumblebee.

Indeed, Rogers and his mother had problems but they had been obscured by the company's dazzling growth. "During much of the Seventies we were expanding geographically from a regional company to a nationwide one, so we never had to admit we had a problem," he says. A big part of it was that for years management ignored the red light of inflation. "In 1970 our average sales director earned about $12,000 a year," says Rogers, "compared with $6,000 for an executive secretary. So we were getting a lot of proficient beauty consultants moving up to sales directors." But by the late Seventies Mary Kay's sales directors were still making about $12,000 a year while executive secretaries had jumped to $12,000 to $13,000. "We lost our competitive edge in the job market," Rogers says.

Rogers plunged into the task of making the bumblebee fly again after taking advantage of a lagging stock in 1977 to buy in 14% of Mary Kay's

You gotta believe

Judy McCoy of Milwaukee is the kind of success story Mary Kay Cosmetics likes to talk about. Mrs. McCoy, 31, is a Mary Kay senior sales director whose income this year will run into six figures. Less than five years ago she was a housewife, "looking to make $50 a week and get out of the house a bit."

How did she become a tiger of the cosmetics business? "If anyone asks why I've been successful," she says, "it's because I wanted to win. Just dangle a mink coat in front of me."

Mrs. McCoy started her Mary Kay dealership in 1976 with a $300 bank loan for which her husband cosigned. Startup credit is vital, because Mary Kay makes its people pay cash up front for merchandise. Now her husband works for her—along with 225 others—and credit for her is no problem. She can easily finance her $2,500 inventory from cash flow. "I think my husband was typical of other husbands when I started," she says. "He wasn't sure if it was a fluke. I had to show him. But nothing talks to men as money does."

Most of the sales directors and "beauty consultants" who work under Judy McCoy aren't established, so she recommends they start off with bank loans. McCoy figures if a woman has to meet payments, she won't spend the money she makes right away. "My goal is to get my people on a profitmaking basis," she says. "So they're not spending a lot of time messing around."

Unfortunately, few of Mary Kay's beauty consultants come close to the kind of money Judy McCoy and her sisters (see photo) make. Most consultants are lucky to earn $1,500 a year in a nine-hour week; the more active ones, perhaps $4,000. And heaven help the disillusioned consultant who wants to return her unused beauty kit for a refund. She's given seemingly endless pep talks before the company comes across with the money.

Directors like Judy McCoy teach and recruit, so in addition to sales commissions there are recruiting commissions and commissions on the recruits' sales. Teaching? The curriculum boils down to sell, sell, sell. Like learning to "nod your head yes when you're talking to your customers—it's a mild form of hypnosis," as the consultant's handbook advises. Selling only one item at a party is to be avoided, too; the idea is to sell the customer a whole line of products.

"We are more a teaching than a selling organization," says Richard Rogers. The end product is the same, though. Take Mary Kay Ash's autobiography to be published this fall by Harper & Row. Says Rogers, "It's a philosophical book about how women should conduct their lives." But in the next breath, he crows: "What if we sell a million copies in 1982? What do you think *that's* going to do to recruiting?"—**H.R.**

shares at between $5 and $10 (adjusted for a 1980 stock split). He tendered for another 700,000 shares at $13 in 1979; all told, Mary Kay's capitalization was shrunk by about 25%. "We decided to overhaul all our compensation programs," he says. Too few people were earning the pink Cadillac. "We introduced the pink Buick Regal program. Prior to that only the top people got Cadillacs. Now the whole middle structure can earn a car."

He continues: "Then we introduced a $300-a-month volume bonus on top of the existing commission schedule. We have also raised the recruiting bonus to $400 a month. So if they hit both bonuses, that's $700 a month more. And we've changed our recruiting commissions from 4% to 8%." The result: "We turned things around in just 2½ years and regained our competitive edge. With the average income of our sales directors now approaching $25,000, that's caused a real explosion of growth in the sales organization."

Rogers also revamped and broadened his product line. But not too broad: He hasn't forgotten that one of Mary Kay's strengths is its comparatively narrow market niche. Today a Mary Kay beauty consultant still has only 45 items to show a customer or to carry as inventory. By contrast, an Avon representative calls every two weeks and drops off a catalog with about 250 items selected from the 650 in her line.

In the past Mary Kay, like many companies on the way up, had been reluctant to raise prices. That changed too. In 1978 Rogers raised prices by 15%, in 1979 by 7% and, in February of this year, by 16%. Most of the last hike will come down to earnings. So far it has seemingly had little effect on unit volume. In fact, Rogers boasts, repeat business—over 35% of sales—has not eroded.

As for the future, Rogers says, "We don't have any saturation problems at all between today and $500 million in sales during the 1980s. Avon does about $2 billion a year in sales in the U.S. and Canada. Back in 1970 Tupperware did less than $180 million a year; last year it did around $800 million. And remember, 35% of our business is repeat—which is important because we're not constantly selling to new people. As we grow, we're bringing our customer base forward."

The sudden spurt in business since late 1978, which so far has not required major capital outlays, will get expensive from now on. Substantial sums will be required for the first time. One analyst, Brenda Lee Landry of Morgan Stanley, estimates the amount at up to $75 million over the next two to three years. She figures Rogers' ambitious sales expansion will require Mary Kay to raise at least $50 million over the next 12 months. Result: That rising cash hoard will be eaten up quickly and it will be necessary to borrow money, perhaps via a convertible issue.

Furthermore, Mary Kay's pell-mell expansion could produce margin problems—it usually does. Costs could temporarily get out of control and sales could slow. In other words, despite glowing long-term prospects, don't expect straight-line growth. Occasionally the bumblebee goes in circles. But so far, it has always found a way to right itself. ■

From Charles Ungerman's corner of the aircraft industry, change comes in 20-year cycles. But that's the beauty of it.

A gilded lily pad

The Up-And-Comers

By Carol E. Curtis

When Charles Ungerman left the Navy at the end of World War II, he had four General Motors car dealerships in Woburn, Mass. to go back to, established before the war with $4,000 in seed money. The dealerships prospered, but Ungerman grew restless. So in 1951 he put several of his GM mechanics to work in a backyard machine shop. It was nothing fancy—just an old Quonset hut filled with lathes and other machines.

Ungerman also snagged one highly skilled machinist from General Electric's big Lynn plant down the road by promising him half of anything the machine shop made. That may have been the smartest move Ungerman ever made. His new partner brought Ungerman a curious—but as it turned out, significant—piece of business from the aircraft industry: GE told Ungerman and his partner that if they could take a new English patent GE held and use it to turn out three cartridge starters for a Canberra bomber, Ungerman's little shop would get a $25,000 contract. "We made them in three months," Ungerman recalls. That was the end of the car dealerships and the beginning of one of the most profitable subcontracting businesses in the aircraft industry.

As a specialist in making and finishing jet engine parts—mainly turbine blades, airfoils and discs—Ungerman's Walbar (a contraction of the

Walbar's Ungerman (seated) *and Fischer* ***"Those same little parts."***

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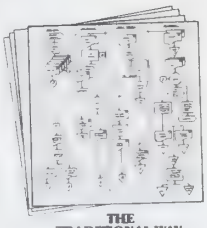

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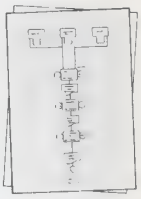

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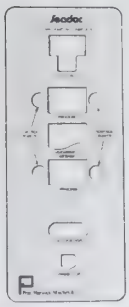

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Charles Ungerman's recipe for success: To grow in this business requires not so much the flexibility to change and diversify as the patience to stick with what you've got—even when the going gets rough.

names of his children, Walter and Barbara) now supplies big enginemakers like GE, Pratt & Whitney, Garrett and Germany's Motoren-und-Turbinen-Union. Of 30 leading companies in the aircraft industry large and small, little Walbar ($65 million sales) has the highest aftertax profit margin (12%) and the fourth-highest return on equity—29% (after Macrodyne, American Welding & Mfg. and Fairchild Industries). Sales have tripled since 1974. Pretax income has risen from $1.88 million in 1974 to an estimated $18 million this year, with compound annual growth averaging a healthy 18%, and net income has more than doubled, from $3.7 million to $7.8 million in the last two years.

In many businesses, sticking with just a few components would be a sure recipe for slow growth. But in Walbar's corner of the industry, the opposite has been true: Fast growth and high profits have come from making the same parts over the life of the subcontract. Expansion comes from more subcontract work, which can last 20 years or more on parts for a single engine.

It has taken Walbar 30 years to go from a Quonset hut in the backyard to where they are today. Ungerman's recipe for success was learned through hard experience: To grow in this business requires not so much the flexibility to change and diversify as the patience to stick with what you've got—even when the going gets rough. And, for Walbar, it has been very rough indeed on at least one occasion.

After that first piece of business, GE was so pleased with the components Walbar turned out that Ungerman wound up making 900 of them. In one year the new company made $100,000 on the GE starter alone, and Ungerman's machinist-partner made $42,000, almost 6 times his $7,200 annual salary at GE.

Ungerman then used the same carrot to hire three more GE partsmakers, giving each of them a 13⅓% share of profits. Ungerman and his original partner cut their take down to 30% apiece, and all five took their earnings and plowed them back into Walbar by issuing new stock and buying it themselves.

The business kept pouring in. By 1966 Walbar had so much work from GE it opened up a bigger plant in Peabody, Mass., to be closer to GE's Lynn headquarters. By then, Walbar was also making blades, airfoils, discs, seals and vanes for ten different GE engines.

That original model for growth—getting valuable subcontracts from a big enginemaker, then building a

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plant nearby to fill them—worked well for Walbar, up to a point. In 1962, Ungerman opened a second plant, in Toronto, originally to churn out parts for a nearby GE operation; it now works mostly for Pratt & Whitney. A third plant followed in 1969 in Tempe, Ariz., which opened to fulfill a $120 million subcontract from Arizona's Garrett Research for Garrett's 731 engine. A fourth, in Florida, is near an experimental Pratt & Whitney plant developing rocket engines. All told, those three companies account for nearly three-quarters of Walbar's sales.

But Ungerman found that being a little brother to big companies was a surefire success formula only as long as their business held up. By 1969, when Walbar had grown to a $23 million company with a corner on a small but thriving end of the business, the aerospace business dried up. At Walbar's Peabody plant alone, $1 million in monthly business fell to $200,000 in just eight months.

The solution? Ungerman decided to diversify. He began making gears for turbo-prop engines and valves for nuclear submarines. But what had given Walbar the edge in the blade and disc business—its ability to precision-finish parts better and cheaper than the competition—didn't hold true with

The Up-And-Comers

other components. "We got in the soup," Ungerman admits, because Walbar wasn't any better at making those things than the host of competitors it faced. Between 1970 and 1973, the company lost $3 million, much of it on gears.

That taught Ungerman something he never forgot: Stick to the things you know how to do better and cheaper than anyone else. He sold off the gearmaking machinery, got out of valves and returned once again to those few specialized parts Walbar started out with. Even today turbine blades and compressor air foils alone make up 79% of sales.

It was a costly lesson. To get working capital and stay in business after that diversification debacle, Ungerman had to pay interest at 4% above prime. When he went to New England Merchants Bank for the money, he admits the bank was "scared stiff." But, he hastily adds, he got the money, and he says proudly, "We never missed a bank payment by a day, or a paycheck by 15 minutes." As the aerospace business recovered, Walbar's revenues gradually came back.

Sticking to their lathes, he and his skilled machinists kept polishing their expertise, which has now become sophisticated indeed. Despite Ungerman's lack of a college degree (he flunked out of MIT), his technical knowledge has enabled Walbar to establish a reputation for the best work in the industry with superhard metals. "The parts we make are like what a brain surgeon does," he says. "There's no room for error." The metals used in turbine engine components must withstand temperatures as high as 2,800 degrees. Superalloys are required: cobalt, chromium and titanium; never iron or steel. In the precision finishing of a 3-inch turbine blade, where the metal is so hard only diamonds will cut it, an error of one-thousandth of an inch could be a gap wide enough to cause a whole engine to blow apart.

In one aspect of precision finishing, in fact, electrochemical machining, Walbar is the world leader.

In other niches, Walbar is a lower-cost supplier of the parts it makes than the enginemakers themselves. The big companies often can make the same devices in-house, but a part costing Walbar $25 to make, for example, may end up costing a major manufacturer as much as $40. So, barring another unlikely downturn for the enginemakers—the jet engine market through the 1990s for planes

To run each plant, Ungerman appoints a general manager with considerable autonomy. "These managers," he says, "are like fat frogs on lily pads. The trick is to keep getting bigger lily pads, then finding the right person to sit on them."

like Boeing's 757s and 767s alone is expected to be in the area of $10 billion—they have little incentive to take their business elsewhere.

There are other companies making the same components—including Howmet, Ex-Cell-O Corp. and TRW. But in its corner of the industry, Walbar's market share is unmatched: Of the 50% of the market farmed out to subcontractors, Walbar has almost one-third of the business. And few winds of change blow over aircraft parts manufacture. Once Walbar gets the Federal Aviation Administration to certify its part on an engine, it stays on that engine for the life of the program, usually two decades or more. "One secret of this business," says Walbar Treasurer Jack Fischer, "is to become involved in the early stages of a program, then become specified [by the FAA] as the maker of a part." Walbar is currently the certified manufacturer for parts on 50 different engines. It is still making some of the same parts Ungerman turned out 25 years ago.

It can be slow going, though. Walbar spent seven years developing the prototype for the minuscule hydrogen gas pump it makes for the space shuttle under contract to Rocketdyne. R&D spending can be as much as $200,000 on prototype work for a single part. To finance that work, Ungerman relies almost entirely on cash flow from company operations. Total long-term debt is just $1.7 million, with an enviable debt-to-equity ratio of 1-to-16.

Walbar's main plant, in Peabody, Mass., will never become a tourist attraction. It consists of row upon row of machines, each manned by a skilled operator in various stages of making, finishing or inspecting a part. The parts themselves, odd-shaped pieces of metal, wouldn't rate a second look on a scrap heap.

But they require machinists who make up to $30,000 a year. The turnover rate is low, a condition Ungerman carefully nurtures with generous overtime pay and a benefit plan with a stock option. In fact, he says, his employees are the main reason he took Walbar public in 1979. Under the current thrift plan, workers can use part of their salary to buy company stock, with Walbar kicking in a percentage of free shares. At that, Ungerman retains 67% of the stock, his original partners having died or been bought out long ago. He claims he has no plans to sell the company, but does allow that a secondary offering is possible if "rapid expansion" requires it.

Despite the thin float—only

The Up-And-Comers

850,000 shares are publicly traded—analysts like Walbar. For, besides its high profit margin, return on equity and compound annual growth, it is the beneficiary of some very nifty timing. All three of its main businesses—commercial, general and military aviation—are on the upswing. The booming general aviation market is 40% of Walbar's revenues, Boeing's new planes are coming on stream, and in military aircraft, Walbar is a subcontractor on engines for the F-18 fighter, the F-15 fighter and even the proposed B-1 bomber, if it is revived.

H. Lloyd Kanev, who follows the industry for Smith Barney, Harris Upham & Co., sees Walbar's earnings growing by 15% to 20% a year for most of this decade. Shearson Loeb Rhoades' Sandra Roth sees yearly sales gains of 30% through 1984.

That is a long way from Ungerman's quonset hut days. But in some ways, Walbar is still the same. Growth at each of the four plants has been structured along the same lines as that first lucrative relationship with GE. Each plant is run as a separate business, with the cash flow from bigger plants financing startup of smaller ones—always near the customers they serve. Ungerman is currently weighing two more plant sites, on the West Coast and in Cincinnati, near potential new customers.

To run each plant, Ungerman appoints a general manager with considerable autonomy. "These managers," he says, "are like fat frogs on lily pads. The trick is to keep getting bigger lily pads, then finding the right person to sit on them."

At 73, Ungerman is still Walbar's chief executive, though he maintains a looser rein these days, from his home on the inland waterway in Jupiter Island, a posh residential enclave near Palm Beach. He has a private dock at which a friend's boat may be frequently tied up—usually an aerospace executive. Most of his working time is spent keeping track of which engines are likely to sell well, to prevent Walbar from doing expensive prototype work on a part that may go nowhere.

When so much of your business comes from so few customers, there will always be high risk. But in the unlikely event that Walbar stumbles, it won't be because Ungerman is confused about which business he should be in. "Every dollar we make," he says, "is a man by a machine, pumping out those same little parts. The key is to pass that on." ■

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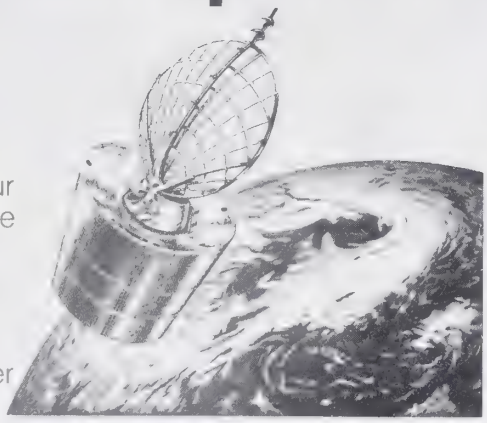

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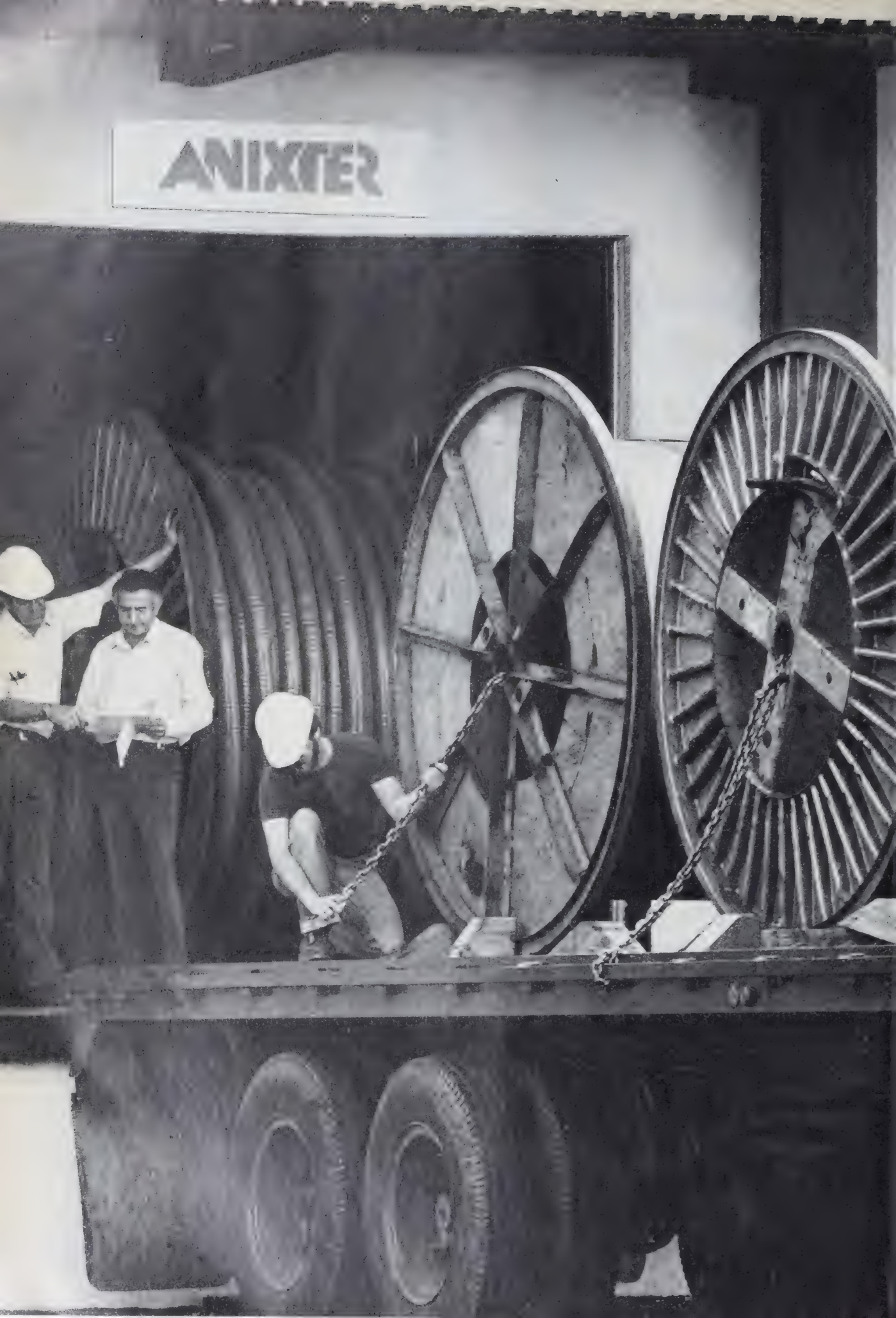
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Ever heard of Sonoco? You may be hearing a lot about it. The boys from Hartsville, S.C. have their own markets just about sewn up, and they're looking to expand.

$1 billion should be fun

By Paul B. Brown

CHARLIE COKER SMILES when asked about the anonymity of his company. "About the only time we hear from the public is the letters I get once in a while complaining about a restroom along an interstate somewhere." He always replies politely, explaining that his company is *Sonoco*, not *Sunoco*, and it's a packaging company, not an oil company.

Some packaging company, though: Coker's Hartsville, S.C. concern leads the FORBES Yardsticks in profitability. Its sales of $490 million last year stood 42% higher than in 1978, and its 17.3% return on equity over the last five years was a third better than the industry median.

Still, it's barely known outside the Carolinas and, for the most part, that suits its 48-year-old Harvard M.B.A. president just fine. If anyone 6 feet 4 inches tall can be said to have a low profile, then Charles W. Coker Jr. does. Reporters, he concedes apologetically, make him uncomfortable.

Sonoco Products Co. is, in essence, a packaging job shop. If a company needs a special package for its product, it calls Sonoco, and Charlie Coker's people design and manufacture it in one of their 100 plants throughout the world. "Everything is produced for a specific customer order; we have very little inventory," Coker says. "Our emphasis is on customer service and getting the product out promptly. That is why we have this proliferation of small branch plants. Our products are bulky and cannot be shipped a great distance without substantial cost, so we have literally followed our customers around the world."

As a result, Sonoco has cornered a piece of the market that its larger competitors ignored, and the company spends a great deal of effort making sure it holds on to it. Coker is fanatical about productivity. Every request for a new employee to the largely nonunion, 8,300-person payroll is reviewed by an executive committee and ultimately by Coker himself to see if the worker is truly needed.

The same attention is paid to customer relations. "I tell my people, 'Let's mind the store,' " Coker says. "The top priority here is doing things the right way and doing them extremely well. I think our success has been in gathering a niche in the market and sticking to our knitting."

Sonoco President Charles W. Coker Jr.
"Let's mind the store."

The knitting analogy is historically appropriate. Sonoco—which was called the Southern Novelty Co. when it was founded by Coker's great-grandfather 82 years ago—started by supplying paper cones to hold yarns used in southern textile mills. Over the years the company branched out into paper tubes and containers, recycled paperboard and plastic products. The result: Textile supplies now account for about one-third of sales. But Sonoco still dominates that market so thoroughly that, although company officials won't discuss market share in detail, at least one estimate gives Sonoco 80% of the cones used in the textile industry.

So, with a good portion of its other markets covered as well, Sonoco is looking to branch out. "We are in some maturing businesses," says Coker. "We would like to find some additional businesses to get into." He has the financial wherewithal to do that: Sonoco's long-term debt is 10% of total capital—the industry average is 50%—and it has $21.8 million in cash or equivalents. Last year the company bought Baker Industries of Hartselle, Ala., a $35 million (sales) manufacturer of reels for wire and cable companies.

That acquisition, according to Peter C. Coggeshall Sr., executive vice president, will be typical of future ones: "Over the years we've had a rather conservative approach to our financing, and preferred to finance our own expansion rather than use our debt capacity." That may change, he says, depending on the acquisition. But the company is not likely to acquire for stock, he adds, because at a recent 27, or 9 times earnings, "we feel our stock is undervalued. It's not widely traded, and we have been associated with the paper and textile industries that traditionally have had low P/E ratios. We have never tried to appeal strongly to institutions. We tend to be a regional stock."

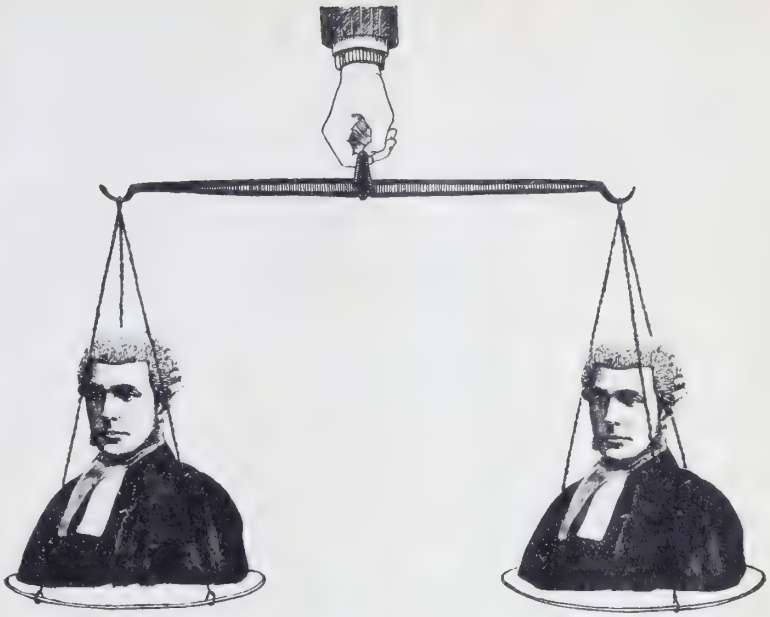
As a prudent, conservatively run company should, Sonoco plans to acquire companies in related fields. Says T.C. Coxe III, senior vice president for corporate development, "We're going to stick to something we understand. We think we understand an industry supply operation and we can respond to those customers' requirements."

Still, Coker says, there is no real hurry. While his markets are maturing, they're not ready for Social Security. Sonoco could probably double sales within five to seven years, according to company officials—just by sticking to its knitting a bit longer. ■

Personal Affairs

Edited By William G. Flanagan

Finding a lawyer—what the stars say



Finding a good lawyer has never been easy—even though they can now advertise. Perhaps, in fact, it is even harder to find the right lawyer now because they *can* advertise.

Almost everyone has occasion to require the services of an attorney for business or personal reasons. On average, in fact, every American will either sue or be sued once during his lifetime.

FORBES went to four of the more famous lawyers in the country to get their recommendations for finding expert legal help.

Edward Bennett Williams, renowned criminal trial lawyer in Washington, D.C., and part owner of the Washington Redskins, suggests that the quest for a particular legal specialist should begin with your own general-practice lawyer. Says Williams: "It's always safest to be referred by a lawyer to another lawyer who will have some expertise for the client's particular needs."

Steer away from the bar associations' referral services, too. "In their effort to be absolutely fair, they just go down the list," warns Williams. "They don't even begin to evaluate the talents, abilities and competence of a lawyer."

If you are with a large company, he says, seek out the advice of inside counsel and ask for two or three names of outside experts. Once you have selected a lawyer to see, suggests Williams, ask for a complete breakdown of fees. You are entitled to know who will actually be working on your case, and how the time will be spent. Make it understood that when the bill arrives, you will not be content with one bottom-line figure. Costs are not likely to get out of hand if from the outset your lawyer and his associates know that their time will be scrutinized carefully.

Simply going to the "best" lawyer is no guarantee he or she will work on your case. When Williams first started practicing law, for example, he tried negligence cases for insurance companies, bus and streetcar firms and public utilities. "I tried so many of them in five years that I never want to see another one," he sighs. As may be the case with your prospective lawyer, Williams now refers all those cases to his associates.

When it comes to payment, even superlawyers can be flexible about scheduling. Williams maintains he has no rigid system for collecting. "All kinds of financial arrangements can be worked out depending on the case," he adds.

Melvin Belli, the flamboyant San Francisco attorney who built a reputation in personal injury and medical malpractice cases, suggests trying the local grapevine to find the right lawyer. "First, get a consensus [about a specific lawyer] from talking with newspaper people you may know, some judges you know—the people who move the community," says Belli. "Then go to him personally, and see how you get along. If you don't think you could work with him, then get the hell out of there." Belli says he judges his clients by the same measure—by his ability to work with them.

Edward Bennett Williams
"Financing can be worked out."

The last step is to check with the legal community. "I'm talking about the informal association," says Belli. "Say you know an older tax attorney who wouldn't think of going to court anymore. He might be able to tell something about your prospective attorney, from personal knowledge or by checking around for you. The informal association will then tell you if he hasn't written anything recently, hasn't done any lecturing, or if he's an idiot in court."

Belli places no stock in going to the state or local bar association or the *Martindale-Hubbell Law Directory* for recommendations. He calls the directory listings "the worst criteria I know of." Small wonder he's so critical. If Belli were listed in the directory, it would doubtless indicate that he was suspended by the California State Bar Association back in 1974 over some liquor ads he appeared in. That suspension, however, which could have ended a lesser attorney's career, doesn't seem to have done him too much harm.

Raoul Lionel Felder, a lethal New York "bomber," or divorce lawyer, agrees with Belli about the Martindale-Hubbell directory. "I know there are some lawyers, for whose expertise I have no respect, who have lovely biographies," says Felder. "On others

Personal Affairs

whom I do respect, there's only a line or two." But Felder thinks the directory can be useful in another way—learning whom the law firm represents. That could turn up any conflicts of interest with your own case. And the directory does give a good idea of the attorney's areas of expertise and experience.

Let's say you are looking for a divorce lawyer. Felder suggests you check the M-H directory to see how many of the lawyers have a *trial* background. With rapid changes in the divorce laws over the past few years, Felder believes that if a divorce lawyer does not have years of trial experience, the client is disserved since the lawyer must be prepared to slug it out in court.

In interviewing an attorney for a divorce case, Felder suggests you do the following:

- Ask how many cases he has tried to completion. The more the better.
- Ask if you can read any of his transcripts or briefs (with the names of his clients crossed out, of course). Pay the lawyer extra if need be to obtain the copies. Then you'll have an idea of the lawyer's style.
- Draw up a retainer agreement, if you like the lawyer, to work with that lawyer only. No need to pay to bring up to date some other associate at the last minute.
- Ask to have some provision included in the retainer agreement in the event you decide to switch lawyers in midstream. This will smooth over the severance.

Here are some of Felder's suggestions on what *not* to do in choosing a divorce lawyer:

- Don't take advice from a friend who has used a lawyer in his own divorce. "He may have been adequate or inadequate. The friend has no way to judge."
- Don't choose the nice guy at your country club. Comments Felder: "I would be cautious of the lawyer who is not so busy he can just drop by for dinner and talk about crabgrass over drinks at the club. Simple divorces have now been made complicated by the wave of equitable distribution laws. If you own a small business, a divorce that would have required $100 a week in support now must be evaluated in terms of a dissolution of a $100,000 business partnership." Felder recommends you find someone who spends at least 40% of his time with divorces; 100% if there are substantial assets.
- Don't pick a lawyer just because his name was in the paper. Lawyers who are busy will turn away from cases where the value is only publicity.
- Don't retain the lawyer who doesn't charge for the initial consultation. "That tells you he needs clients and has a lot of time on his hands."
- Don't check into the huge corporation law firm you may have dealt with in your business, unless you know the right person. Frequently, your contact will just walk down the hall and ask if anybody knows of someone, says Felder.

Raoul Felder in his Fifth Avenue office
"Simple divorces are complicated."

San Francisco attorney Melvin M. Belli
"Directory listings are the worst."

Marvin Mitchelson of palimony fame was reached in Paris on the trail of yet another big-bucks divorce case. As might be expected of one whose credits range from the *Donahue* show to *60 Minutes*, he thinks word of mouth can be valuable in finding legal help. "But for the lawyer, it's like being a baseball pitcher. You're only as good as your last win."

Mitchelson advises talking to a lot of people and getting a consensus, then running a check with the bar association just to make sure the lawyer is not in trouble, or doesn't have a history of grievances.

But Mitchelson also stresses the importance of getting along personally with your attorney, and of making time available to him so he can do his job. "I represented Richard Harris through two divorces," he says. "When he was filming *Camelot*, we used to get down in the mud together during shooting. It was the best time to talk to him. Or take Dr. Carl Sagan. Certainly a successful man. We get along well, and I didn't mind going up to the heavens with him, and

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Personal Affairs

he came down from the stars to see me."

Mitchelson also cautions against giving advice to the lawyer. "A lot of people like to run their own lawsuits, especially in divorce suits. They like to get even, get retribution, score a point or two. You must learn how to check your own emotions and act with humanity, kindness and decency."

He also has a few points to make about fees.

"The client should establish up front what the costs might be. If the lawyer charges a retainer, the client should understand that it is a retainer against a percentage of the outcome, or against hours, and that any additional fees based on extraordinary services can be tacked on by the court or the particular requirements of each case." And in the final bill you should never be hit with any big surprises.

You should expect your lawyer to contact you, for instance, if a deposition is needed from a witness, to tell you how much it might cost and its importance to the case. A full accounting every 30 to 90 days is not unreasonable, depending on how fast the legal meter is running, says Mitchelson. In no case should you have to wait a year for a bill.

Note: In the late summer, look for the *American Lawyer Guide to Law Firms*, a profile of the top 180 firms in 13 U.S. cities. It should prove a useful adjunct to other sources in finding a lawyer. For information on the new book, write Jay Kriegel, American Lawyer, 2 Park Ave., New York, N.Y. 10016; cost: $390.—**Gerald Odening**

Palimony attorney Marvin Mitchelson
"Act with humanity, kindness, decency."

Universal life insurance

You can expect your insurance salesman to be calling you soon about a new kind of policy, dubbed "universal life." It's unlike either whole life or term policies.

Universal life basically promises two things: permanent life insurance and double-digit interest paid on the cash value that builds up in your policy. (Most universal life policies now pay between 10% and 11%.)

The Hartford Insurance Group is the latest, and largest, insurer to offer the new type of policy, which it calls the Solution. (Whether the company hopes it will be a solution for the customer or for the company isn't clear.)

According to John G. Shillestad, senior vice president, policyholders can start out selecting their level of premiums and benefits. Later, they can adjust the premiums and benefits as their financial circumstances and insurance needs change. They can also choose between a static or increasing death benefit. When cashing in, the Solution's flexible payout option can also reduce income taxes by spreading out withdrawals over a period of years.

Universal life policies, in effect, try to combine the best features of whole life, term insurance and annuity savings plans, under conditions that are adjustable each year.

Example: Suppose you are 45, the face amount of the policy is $100,000 and you have already put up $10,000 in cash value. That means, in order to keep the death benefit at $100,000, you have to pay for $90,000 of insurance coverage.

In a year, when you are 46—presuming you let the cash value build up—you could have $12,000 in cash value, and require only $88,000 worth of coverage to still have a $100,000 death benefit. So, in general, your premium would drop.

On the other hand, instead of decreasing the coverage amount from one year to the next (from $90,000 to $88,000), you could opt to maintain the coverage at $100,000. The death benefit—the amount you are covered for, plus the cash value—would then increase each year (in this case from $110,000 to $112,000).

At any time after the first year, you can adjust coverage, and the premiums would change accordingly.

There are charges for universal life protection, of course. Every new premium paid is subject to a 5% charge by the company. In addition, for the first year there is a flat charge of $475, plus $1 per $1,000 of insurance coverage, which is subtracted from the cash value.

Some other features:

- The policy can be issued between ages 15 and 75.
- The minimum total death benefits are $50,000 on the primary insured, and $25,000 on anyone else covered under the same policy.
- The cost of protection for the primary and additional coverage will be determined annually, based on age.
- It's expected the IRS will grant certain tax advantages (rulings are pending): Cash values will accumulate without income tax being due, as they do with an annuity. If you cash in, of course, you have to pay tax. But in the event of death, all the cash value (and the coverage amount) would be exempt from income taxes (although not from estate taxes).

Obviously, the plan is complicated and has many options. But for anyone in the market for insurance, it is worth a serious look.

A new kind of flight pay

Short of marrying a travel agent, and thereby sharing in the commissions on tickets, frequent business travelers could never expect much from the airlines they flew so often. A free drink or two maybe, a plaque, but that was about it.

But now business travelers can get something more substantial for their loyalty—cash, in the form of discounts. American Airlines was the first carrier to start offering the discounts to business fliers, who seldom can take advantage of super saver and other discount fares. "Frequent travelers want two things," says a spokesman for American Airlines, "recognition and reward."

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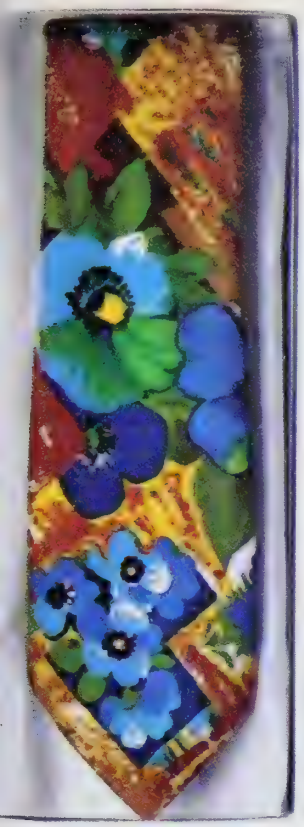


Father's Day 1974

Father's Day 1975

Father's Day 1976

Father's Day 1977

Father's Day 1978

Father's Day 1979

Father's Day 1980

Father's Day 1981

Patience does have its rewards.

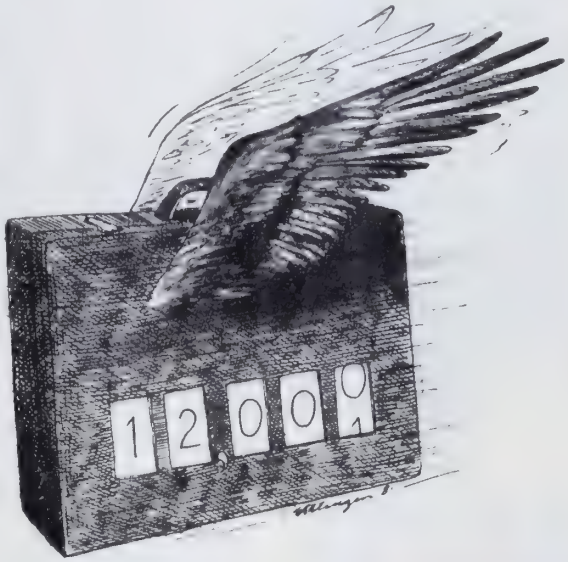
Personal Affairs

Here's how the scheme, called AAdvantage, works. Business travelers who want to participate will be issued a numbered identification card. They must use that number when first buying tickets. That allows the airline's computer to keep tabs on the mileage logged over one-year spans. Once you have accumulated 12,000 miles of air travel, you can either upgrade your ticket to first class on your next flight or leave the meter running. At 20,000 miles, you can get 25% off any American ticket you buy or, again, go on to a higher award level.

When you have flown 30,000 miles on the system within a single year, you can get a discount of 50% on any ticket, or try for the 40,000-mile mark, which is good for a 75% discount. The final plateau is 50,000 miles, and at that stage you will be given a first-class round-trip ticket to fly anywhere on the American system (including Mexico, the Caribbean and Hawaii). The ticket is not just a pass; you get a confirmed reservation, as if you had actually purchased the ticket.

American had barely instituted its plan—to enthusiastic response—when both United and TWA announced similar plans for their loyal business travelers. The ground rules are basically the same, except that on TWA foreign travel cannot be included in your personal mileage log. On the other hand, after 50,000 miles of domestic travel, you can opt for a first-class round-trip ticket anywhere on the worldwide TWA system.

Most recently, Braniff Airways introduced a similar bonus program that uses points instead of miles. The bonus points will be applicable to flights to London and Hawaii and, naturally, the longer the flight the more points that can be accumulated—not only by an individual, but also by families. And Braniff will award 30% more points, on average, for first-class than for coach flights.



According to American, companies are not trying to cash in on the discounts, as many did with free passes that were prevalent lately. "They're allowing their guys to use the bonus ticket, rather than insisting it be turned back to the company, which sometimes happened with the free and discount passes," says a spokesman. "The thinking seems to be, 'Let him enjoy himself—he deserves it for spending all that time in the air.' "

Note: Mileage is computed once you're in flight. So you can't run up your figures by simply making reservations and canceling later.

Loose ends

If you hire interns, the F&W Publishing Corp. would like to hear from you so it can list your firm in its 1982 Internship Directory, now in preparation. If you're interested in a free listing in the directory, forward the name and address of your internship director to Colleen Cannon, Editor, 9933 Alliance Road, Cincinnati, Ohio 45242.

The risks of tax shelters are seldom mentioned by glib salesmen but they are there nonetheless. And that even holds for real estate tax shelters. After all, a bad investment is a bad investment, no matter how many tax advantages it may temporarily provide. One of the most comprehensive, yet brief, booklets on the subject of real estate shelters and their risks and rewards is now available from E.F. Hutton. Last year the brokerage firm was first to pass the $1 billion mark for tax-sheltered programs.

Write to E.F. Hutton, Information Center, P.O. Box 10318, Des Moines, Iowa 50306 for a free copy of *Understanding Real Estate Investments* booklet.

Protecting the family jewels and other, bulkier valuables such as furs and art objects, camera equipment and the like would be a lot easier in a vault than in a home safe. Enter Vaultlock, a system that converts any closet into a vault. A lock is installed inside your closet door, so that it operates just like a vault door in a bank. Four steel bars, with a twist of the wrist, enter the top, bottom, left and right of the door frame. Then a turn of the key in the lock, and it takes an extremely determined thief to get the door open. And, from the outside, the vault looks like any other closet door.

Vaultlock can be installed in any solid wooden door or any hollow metal door. Cost, installed and including a pick-resistant locking system, is about $450. Write Vaultlock Security Systems, 804 Cathedral Street, Baltimore, Md. 21201 for the name of a local dealer.

Going to Europe for three weeks or more? If you plan to rent a car, bring lots of long green. Even a small car can cost $19 a day plus mileage in France, not counting the 17.6% rental car tax. If your stay is 22 days or more, it might pay to lease a car. Renault USA, for example, will arrange a 22-day lease of the Renault 5GTL (Le Car) for $549. The 18GTL sport sedan costs $656. Rates are $948 and $1,060, respectively, for a two-month lease. The cars are brand new but you should reserve at least six weeks in advance for most parts of Europe, four weeks if you pick up a Renault in Paris. Note: If you fall in love with the car, you can convert your lease to an outright purchase and bring the car back with you, which can result in even more savings. For more information, check with your travel agent, any Renault dealer or directly with Renault USA, 800-221-1052.

A condominium isn't a house, even if it is a home, and there are a lot more pitfalls for the prospective buyer. A good primer on the subject is *Buying a Condominium*, by Justin W. Heatter, a consultant and teacher in the field of condominium financing and construction. One definite lookout: very small down payments. The book is available by mail through Financial Strategies, Inc., P.O. Box 442, Cambridge, Mass. 02138. Cost: $6.95 paper, $10.95 cloth.

SPORTS LOVERS TURN US ON

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Night and day, weekday and weekend, your local CBS Radio Network affiliate presents outstanding year-round sports coverage.

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The Competitive Edge

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Everybody knows you can't take it with you—but if you own your own business, you might not be able to leave it behind either.

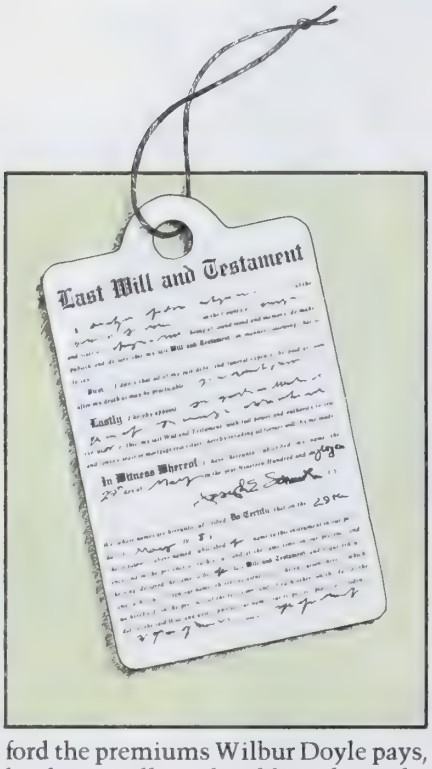
The death tax

By Jon Schriber

When Wilbur Doyle got out of the service in 1947 and founded Doyle Lumber in Martinsville, Va., he didn't know he would someday wind up paying, on average, 20% of his earnings on a life insurance policy—with Uncle Sam the ultimate beneficiary. Doyle's little business has prospered—with $6 million in annual sales, it's now the fifth-largest lumber company in Virginia and is worth about $3 million. Yet to insure that his sons won't have to sell it to pay estate taxes, Doyle keeps paying those premiums. This year—an off year for the business—Doyle predicts they'll amount to more than the company's total earnings.

In Mars, Penna., Harry G. Austin, 65, and his brother John, 55, the only stockholders in $8 million (sales) James Austin Co., a soap manufacturer, pay around $20,000 each in premiums so their 92-year-old company can be passed down to the fourth generation. "Sometimes I think we're really working for the insurance company," says Harry.

Wilbur Doyle and the Austin brothers aren't alone in worrying about the future of their businesses when they're gone. A survey by the National Federation of Independent Business found that among its 539,000 members, death taxes are a close second to concerns about changes in individual income taxes. Says Mike McKevitt, a lobbyist at the federation: "At any small business group, if you want to see them come right up out of their chairs, start talking about death taxes." No wonder. In many cases—perhaps most—if the founder can't afford the premiums Wilbur Doyle pays, his heirs will not be able to keep the company when he dies.



Small businessmen and their supporters *have* already gotten to their feet and are taking their case to Washington. Senator Steve Symms (R–Idaho) has introduced a bill to repeal current estate and gift tax laws. The Reagan Administration originally came out in favor of repeal but recently backed off, citing budgetary restraints. Still, it's a safe bet that the Administration will have some recommendations next fall.

Moreover, this month the House Ways & Means Committee may consider a bill to increase individual estate tax exemptions to $600,000 and to cut the taxable value of qualified businesses by 50%. The measure also would broaden the definition of what qualifies as a closely held business. Former Ways & Means Chairman Al Ullman, who helped organize a lobbying group for the bill after he left Congress this year, thinks "the chances are excellent" the measure will pass.

About $6 billion a year goes into the U.S. Treasury from estate and gift taxes. Ullman and other champions of death-tax reform argue that the breakup of family businesses, the loss of jobs and other dislocations, can cause an ultimate tax loss that could offset this revenue. David Raboy, director of research at the Institute for Research on the Economics of Taxation, contends the tax forces people into "uneconomic decision making." Says he: "It discourages people from investing in the things that are productive."

As an example he mentions a small foundry: that may be a very good productive investment, but an entrepreneur will be reluctant to make the necessary capital commitment. "He knows that if he dies they're going to have to sell off part of it to settle the estate. Clearly that's going to discourage you."

Besides the negative impact on the economy, Raboy points out, the taxes are not fulfilling their original purpose. That purpose, of course, was to prevent great concentrations of wealth, like the Rockefellers' or du Ponts', from being passed on from generation to generation. But the great fortunes remain, while the impact of the tax, at least initially, is falling right on the middle class. Inflation puts it there, of course.

But, while waiting for reform, what are folks like Wilbur Doyle going to do? There are some solutions. For example, each year you can give up to $3,000 away to anyone you want, and to as many recipients as you want,

"DuPont consultants helped us save $13 million in energy costs."

Cyanamid's Herbert Hofmaier, seated on right, Director, Engineering and Construction Division, discusses energy savings with Stan Livingston, DuPont Principal Energy Consultant.

Herbert H. Hofmaier, Director, Engineering & Construction Division, American Cyanamid Company

"It was a team effort from 1975 through 1979 among DuPont energy experts, Cyanamid staff engineers and the people at our plants. Together, we saved $13 million last year—a big part of Cyanamid's 1979 energy savings of $28 million.

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Energy know-how at DuPont comes from running 140 plants worldwide. It's a combination of state-of-the-art engineering and practical application. That's why we've been able to help hundreds of companies here and abroad.

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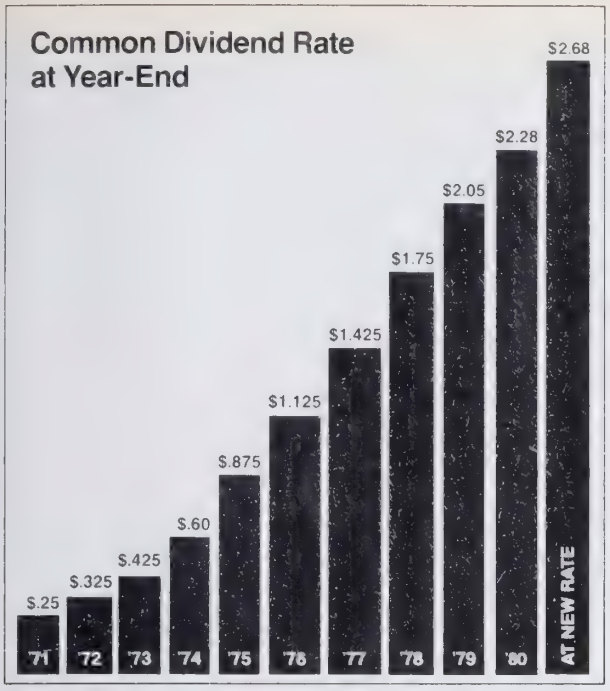


We have just marked our 11th consecutive dividend increase. We did it by raising our common dividend this year to an annual rate of $2.68 per share – a 17.5 percent increase over last year.

Although we view our stockholders' ultimate goal to be total return (market appreciation plus dividends) upon their investment over a period of time, it is through dividends that our stockholders benefit directly and immediately from our earnings growth.

Our dividend has increased from 25 cents per share in 1971, which represents a compound annual growth rate of 26.8 percent – substantially higher than the rate of inflation over the same period.

Our earnings per common share have grown from 53 cents in 1968, the year of our founding, to $5.03 in 1980 – a compound annual growth rate of 20.6 percent. By comparison, the earnings per share of Standard & Poor's 400 compounded at 8.3 percent over the same period.

Record Earnings Anticipated

We look for a record year in 1981. Barring some unforeseeable occurrence, our earnings should be approximately $8.00 per share, a compound annual growth rate (since founding) of more than 23 percent.

But the growth of our earnings tells only part of the Northwest Industries story. One must also examine the ratio of dividends paid to earnings.

Stockholders Share

Between 1974 and 1979 we paid out an average of 30 percent of the earnings available to common stockholders. This payout ratio provided our stockholders with a meaningful participation in our earnings, while allowing us to retain significant funds for expansion in projects with high returns.

Most important, this payout ratio enhances the quality and security of the stockholder's dividend in years such as 1980.

As we anticipated, although 1980 was our second-best year ever, earnings per share of $5.03 were down 10.2 percent from 1979. This expected 1980 slowdown was short-lived, however, and certainly not reason enough to withhold a meaningful dividend increase, especially in a year of significant inflation. Because of our historical payout ratio, we were able to raise last year's dividend without constraining the funds available for investment.

Planning Beyond Recession

In 1980, as in prior years, we continued to make substantial capital investments in our operating companies. Our criteria require that these investments, including associated working capital, hold the likelihood of achieving a discounted cash flow rate of return in excess of 15 percent after taxes.

In analyzing these investments, we focus on the long term rather than being unduly influenced by a recession. It's been our philosophy that a company should plan its capacity in anticipation of demand, so that facilities come on-stream as demand occurs.

For example, in 1980 we authorized Union Underwear Company, Inc., to build a plant in Jamestown, Kentucky, at a total cost of $35 million. This plant will increase Union's capacity 8 percent. Union didn't need this additional capacity in early 1980, but does need it now as the plant comes on-stream.

Last year we also authorized Microdot Inc., to build a scrap melter at its Hubbard moulding site at a total cost of $26 million. This facility will meet anticipated Microdot hot metal needs when it begins operations in 1982.

Maintaining Balance

To us, the importance of retaining earnings to fund such growth and future needs is clear. Sound capital investments today provide tomorrow's growth in earnings and dividends.

Our 1980 dividend payout ratio of 42.7 percent was in excess of our target. This year our projected payout ratio will return us close to our target payout ratio of approximately 30 percent.

Our objective is to continue to increase our dividend regularly – provided that our earnings justify it. Earnings, not just for one or two quarters, but over the long term.

You can learn more by writing for our annual report or SEC Form 10-K to 6300 Sears Tower, Chicago, IL 60606.

Northwest Industries, Inc

©Northwest Industries, Inc., 1981

Wilbur Doyle thinks it's necessary to go on paying those crushing life insurance premiums. "During my years in business I've seen some 25 good companies become nonviable when the principal died. They just didn't have the cash flow to pay their bills."

without paying gift taxes—a married couple can give $6,000 a year. Over and above that, there's a lifetime maximum of $175,000 for an individual or $350,000 per couple. So theoretically, a couple can give $6,000 a year to their heirs for 40 years, with each child winding up with a quarter of a million dollars and the estate with an additional exemption of $350,000. The problem with this—apart from whether a young couple can afford to give away $6,000, $12,000 or $18,000 a year, is that many people are reluctant to give. "They get cold feet," says Warren Shine, a tax principal at the accounting firm of Ernst & Whinney. "They say, 'maybe next year.' "

So what if this $350,000 allowance is not used and the husband dies? Assuming the business is in his name, the estate is allowed to take a marital deduction of $250,000 or 50% of the adjusted gross estate, whichever is more. Take an estate valued at $1 million. First the administration and funeral expenses as well as claims against the estate can be deducted—in this instance, say $100,000. Half the remaining $900,000 adjusted gross estate is subtracted, leaving $450,000. After deducting a unified tax credit of $47,000, the tax due is $91,800.

But all this—plus deferred payment provisions which may help stretch out the taxes—frequently leaves the business with a severe drain on cash flow. One solution is recapitalization, in which the founder or owner issues preferred stock to himself in return for his common shares. It works like this: The owner gets the company appraised for market value, let's say $1 million. Assume he has 75% of the common, and through gifts over the years, his son has 25%. The father exchanges his $750,000 worth of common for a like amount of preferred, which pays a dividend, say 15% of par, cumulative.

The father's share in the company is now locked in at three-quarters of a million dollars. If he dies ten years later estate taxes will be due on only that amount. All the *growth* in the company has become the property of the son, so that even if the company quadruples in value the father's estate is still only $750,000.

There are some pitfalls to this. The IRS may disagree with the original valuation, and the father may have to pay some gift taxes (if the father did not take out enough value in his preferred stock, in effect he gave his son a gift). Some people can have second thoughts, too. Charles Bogen of Ernst & Whinney tells of a client for whom he did a recapitalization 12 years ago. The business, valued at $1 million then, is now worth about $12 million. Says Bogen: "The old man said, 'Look what you did to me. You took all my money.' I told him, 'Yes, but we also took it away from Uncle Sam, and we took more away from him than we took from you.' He's still mad at me. But the sons love it."

All this may help, but for many small businessmen, perhaps not enough. Wilbur Doyle, for example, thinks it's necessary to go on paying those crushing life insurance premiums even though he has recapitalized his business. "During my years in business I've seen some 25 good companies become nonviable when the principal died," he says. "They just didn't have the cash flow to pay their bills."

The Austin brothers haven't recapitalized their soap company at all. "My brother and I each have children working in the business," Harry says. "How do you know 20 years from now which one is going to be in and which one is going to be out?"

In the meantime, the Austins continue to pay those hefty insurance premiums, adamant that the firm remain a family business. But the real truth is that with the Austins—as with so many others—the family is not really the most injured party if the taxes force the firm to be sold out or closed. Elder brother Harry says that if the worst were to happen and the firm had to be put on the block, the heirs would be all right, they would still have enough to live on.

It would be the town of Mars (pop. 1,400), where Austin's soap company is the single largest employer, that would suffer the most. Why? "Certainly if a national firm, any of the big soap companies, bought the company to get the label franchise, why, I doubt they would operate here," Austin explains. "The little town would economically go down the tube." There have been offers already from large corporations for Austin's company, which serves a 500-mile radius of Pittsburgh. Indeed, you could hardly expect a conglomerate like Gulf & Western or Litton to have any kind of emotional attachment or loyalty to Mars. Small family businesses aren't just moneymakers for families—they are an integral part of the economies of small towns from coast to coast.

Wilbur Doyle knows that. But sometimes he wearies of the whole mess. "Once in a while," he says, "I think, why shouldn't I just blow the money and have a good time?" ■

A Forbes Special Advertising Supplement

FRANCHISING

just for the profit of it

OHN Y. BROWN Governor, monwealth of Kentucky

Y. Brown became a role model ranchising in building Kentucky l Chicken into a premier fast operation. Buying out Colonel and Sanders for $2 million in , he moved the special chicken-ing method out of independent urants and into its own fran-ed outlets, expanding interna-lly. By 1971 when he sold the pany to Heublein, Inc. for $245 on, more than 100 KFC inves-had become millionaires. In , KFC's former board chairman CEO became Kentucky's governor.

e concept was born re than a century ago it has expanded metrically in recent rs due to the growing mber of investors and siness persons who ve discovered franchis-to be profitable, ative, and more fun than reading a stock certificate. Here's a look at this quintessentially American business method which has captured the interest of the business community.

A SCENARIO

Larry Schwartz, vice president of a Midwest consumer goods firm, was retiring. Among his benefits was a profit-sharing fund which he sought to invest as a shield from taxes and inflation and, ideally, as an income producer. In his search for a viable alternative, he got involved with a group of local investors which was forming a limited partnership in a fast food franchise. Schwartz knew virtually nothing about running a restaurant (nor did he want to); he was nevertheless impressed with the franchise company's track record and the background of the general partner who would operate the facility. Upon investigating the offer, he opted for silent partner status.

Today, he is looking into a second franchise opportunity, having seen his money show signs of return within the first year. He has come out of retirement to help put the financial package together on the second franchise.

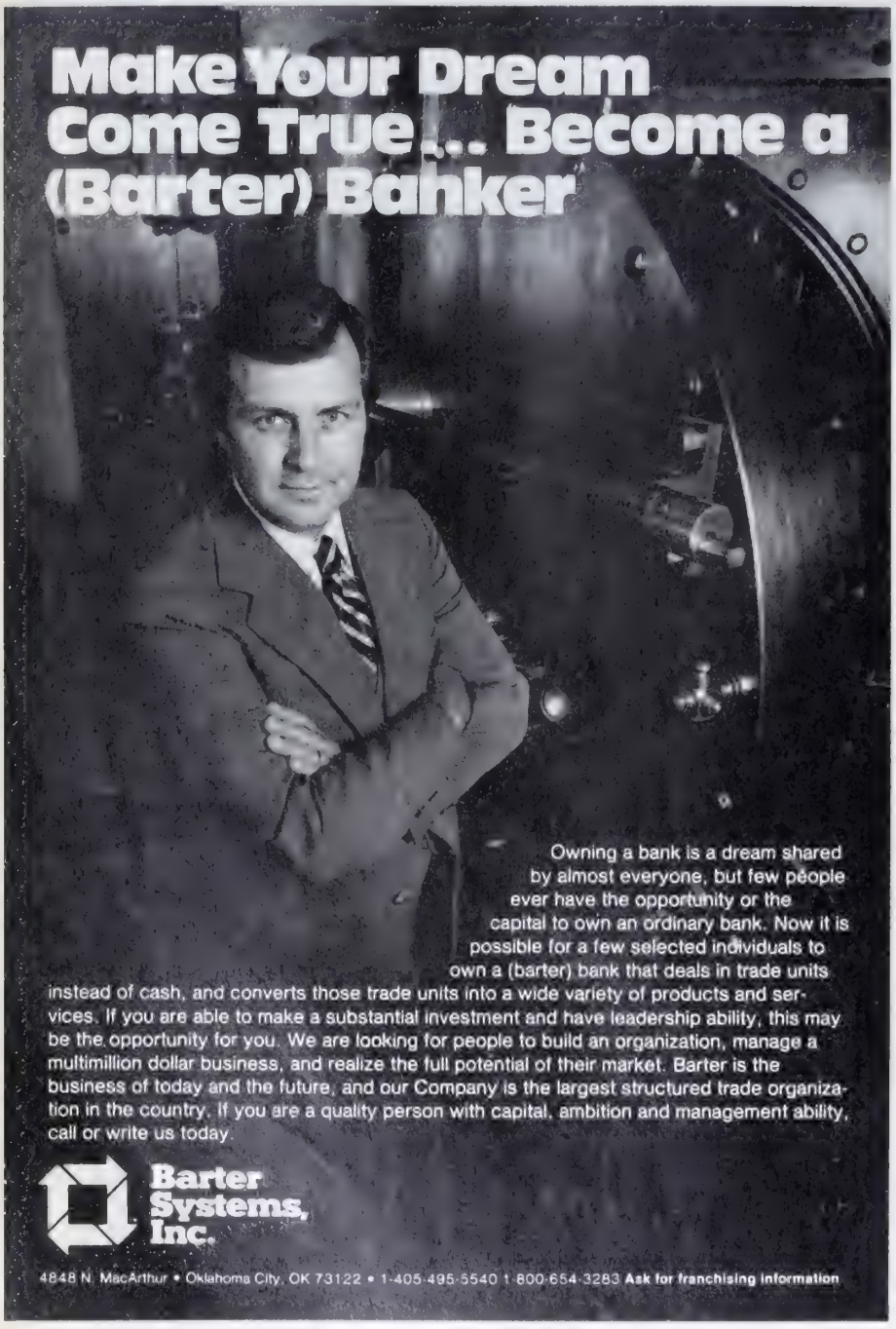
AWAY FROM TRADITION

Here is what has been happening with people around the country who have been putting dollars into everything from Egg McMuffins to muffler shops in the name of franchising. Back in franchising's formative years, these same people may well have turned their heads toward stocks or other "traditional" vehicles rather than become involved in opening a business.

Conversely, the traditional franchise agreements were likely to involve the single owner/operator and the franchise organization. The franchisee would likely come from the field in which the franchise was based.

Yet like other business methods, franchising has started to move away from tradition. Methods of financing have become more creative, particularly in high-end businesses such as hotels and restaurants where initial capital outlay can range into the millions of dollars.

FRANCHISING



At the same time, many peop have started to seek alternatives for their money, due to high inflation and the volatility of the stock market.

And the business community cannot ignore the success of franchising. As more franchise organiz tions make it to the Big Board, eye are increasingly turned to franchis ing as an alternative for investmen dollars.

FRANCHISING BREEDS SUCCE

Franchising's impact on business has been startling. Although precise statistics are hard to find, is the consensus among franchising's experts that a business is mo likely to succeed if it is a franchise operation than if it is not. The Department of Commerce reports th fewer than five percent of franchis outlets have been dissolved each year over the past 10 years.

In contrast, the Small Busines Administration estimates that 65 percent of small businesses fail, many within the first year of operation.

WON'T LET THEM FAIL

The inherent structure of a franchise relationship inspires suc cess for all parties involved. The franchisee is building on the track record of a successful firm.

Where else is one able to achieve the benefit of a researche tested, advertised, pre-sold produ as well as support of the "strong partner"—the franchisor?

One franchisor expressed it r cently: "We have a vested interes each franchisee because if he or s fails, we fail."

COSTS VS. ROI

One of the first questions on asks in looking into a franchise

A ComputerLand franchise offers qualified individuals the opportunity to own their own business in the growth industry of the '80s: computer retailing.

In 1979, sales of personal computers were $750 million. Before the mid-'80s, they'll reach $3.8 billion annually.* Within this explosive industry, the ComputerLand franchisee is in the right place at the right time. ComputerLand is the largest franchisor of professional computer retail stores. Since we opened our first store in 1976, the ComputerLand network has grown to over 150 stores. We provide our store owners with an extensive product mix, central buying, a comprehensive advertising program, intensive training, professional site selection and store design, and a protected area.

Are you qualified?

What does it take to become a ComputerLand franchisee?

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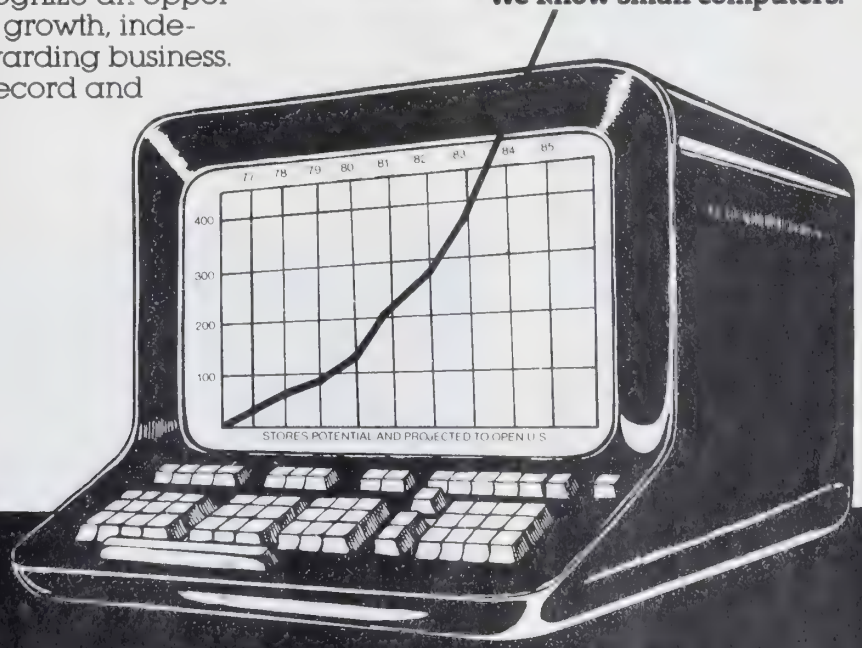

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*Source: International Data Corporation, Waltham, Mass.

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570 Grand Avenue
Englewood, NJ 07631
CALL COLLECT: (201) 567-0960

INTERNATIONAL FRANCHISE ASSOCIATION IFA

FRANCHISING

opportunity is "What is it going to cost me?" While it depends largely on the kind of business to be franchised, possible financial arrangements run the gamut today.

In the hospitality field, for instance, where initial capital outlay rarely runs lower than a million dollars, franchise companies may assemble a group of investors for the opening of a single property.

To the extreme, an investor in Super 8 Motels, the Midwest chain of 93 properties, can put up as little as $2,000 toward opening a new motel.

FRANCHISOR AS SILENT PARTNER

A starting point in researching the financing of a franchise is the franchise company. Certain firms may be able to assist the franchisee in locating financing assistance.

A letter sent recently to an employment franchisor stressed possible financial support.

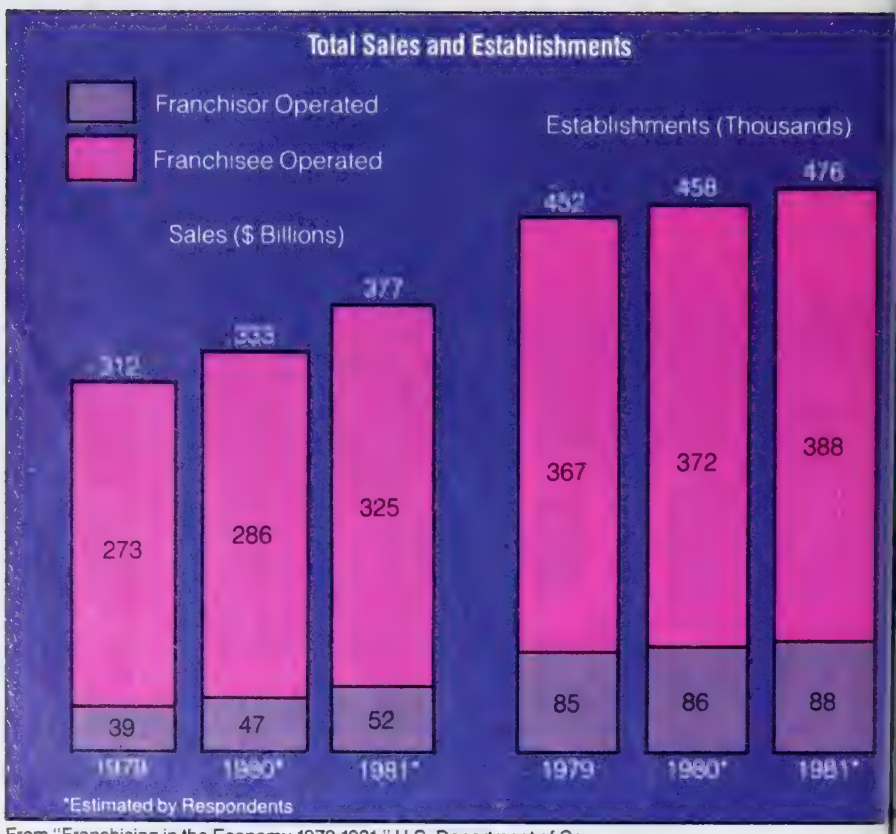
"Talent is scarcer than dollar the letter read. "Several years ag some successful (company) peop got together to form a money poo These funds can be used as perso loans or as venture capital..."

NO LIMIT

Whether to consider franchis a viable business alternative is no hard to answer; today one-third o all retail sales are from franchise operations.

What to invest in is another matter. There's no limit to the number of fields that may benefit from the franchise method. Exam the track records of companies in which you are interested, along with financial requirements and franchisor support.

(Editor's note: Accompanyin chart provides a sampling of fran chise organizations and financial quirements in starting a franchise



From "Franchising in the Economy 1979-1981," U.S. Department of Commerce

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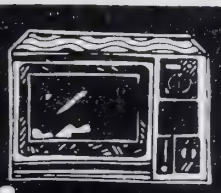

microwave
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FRANCHISES AVAILABLE

tail stores selling microwave ens and accessories, with oking schools to teach their e, we provide site selection, out and design, sales sentation, cooking school d advertising programs, rchandising.

JS: Group Volume Rebates, tionally negotiated programs ovens, accessories and how merchandise them. We have stores at present. Contact:

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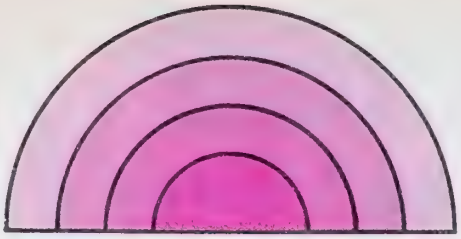

WHAT IS FRANCHISING?

Everyone has a picture of franchising in his head—a favorite restaurant or hotel. It's important to note that franchising is not a business, but a method of doing business. Starting with auto distribution systems and soft drink bottlers, these traditional franchises today account for 75 percent of all franchise arrangements.

The fastest growing area of franchising, however, is business format franchising, whereby an entire business, not just a product or service, is part of the franchise operation.

WHY IS IT SUCCESSFUL?

Franchising uniquely combines the capital and entrepreneurial spirit of the individual with the strength of an established organization.

As an investment, it is something that one can participate in—even passively—because it is tangible.

For an active owner, the extent and depth of involvement is endless. Many franchisees staff their establishments with immediate family, appointing spouse as partner or assistant and children as "crew members." Some franchise companies include the option of transferring ownership, offering the possibility of keeping the business in the family.

THE FRANCHISE PACKAGE

Depending upon the business and the franchise arrangement, the franchise package will vary. However, most companies offer some combination of the following:

- use of a well-known trademark, trade secrets, and copyrights;
- initial and on-going training;
- access to proven methods and systems of doing business;
- advertising and promotional assistance which gives the franchisee instant identity in the marketplace;

A Strategy For Independence And Success

by Albert G. Hazlewood Jr.
President, Big Red Q Quickprint Centers

Maybe, this is for someone you know...or for yourself? Every individual desires as much independence as possible, and owning your own business offers the best opportunity for enjoying that independence and its rewards.

• It is a fact that franchised businesses enjoy a success rate outstandingly better than that of independent ventures. The Small Business Administration reports most businesses fail from lack of management skill, a deficit largely avoided by the franchisor's expertise.

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• Our franchised owners come from all walks. Many are businessmen, some are husband and wife teams, some are business women. There are owners who formerly worked for large companies, other owners are younger—just starting their business careers. But all share a common goal—the desire for independence and rewards commensurate with ability and effort. **Facts Available.**

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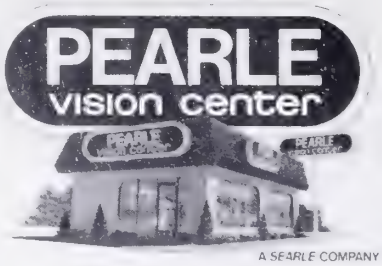

- group purchasing power;
- accounting, bookkeeping an other procedural guidance;

HOW THE FRANCHISOR BENEFITS

A company's impetus in sellin franchises is twofold: 1) the ability achieve expansion on limited capital; and 2) the chance to grow by offering to others one's carefully cultivated business expertise.

Franchisors' earnings come in selling this expertise. When a franchise is purchased, one norma pays a one-time franchise fee whic often covers the cost of pre-openin and opening services offered by the franchisor. In addition, the franchisee pays a regular (usually weekly or monthly) royalty or fee which typically covers use of the company's trademarks; certain services, etc. The royalty may cover advertising and promotion, or these may be stipulated in a separate charge.

MAKING THE RIGHT DECISIO

In investigating a franchise, it is advisable to bring in professionals, particularly a lawyer and accountant, who are versed in franchising.

Valuable information can sometimes be obtained through the Better Business Bureau and Chamber of Commerce. In the case of privately-held franchise companies, it is often worthwhile to conduct a private investigation (via Dun & Bradstreet or other fact-finding organization) on the firm and its key decision-makers.

ASK THE SOURCE

Still, one of the best bets for obtaining "inside" information ca be found in talking to a representative selection of current franchisees who may offer references c the firm as well as an outlook on what to expect during the first weeks and months of operation.

AINING, NOW AND LATER

Training is key to launching ıccessful franchise business, be-se many franchise concepts are ed in part on the passing along ey marketing and operating in-nation. Most franchise com-ies offer some type of pre-ning training as well as on-site during opening week.

Increasingly, franchisors are de-ping and administering pro-ms for other franchise personnel, vell as on-going training and re-her courses for the franchisee.

NING THE DEAL

The heart of the franchise ngement is set down in the con-t between franchisor and fran-ee. Among the provisions of the tract may be the following:

- agreement as to use of trademarks, tradenames and other trade secrets;
- territorial rights;
- start-up provisions and costs;
- franchise fee and subsequent fees or royalties;
- purchase requirements from the franchiser;
- training and attendant costs;
- specific standards to be met by the franchisee in operating the business;
- systems and procedures to be passed along to the franchisee, particularly in bookkeeping, accounting, and other administrative system;
- advertising and promotion programs and the franchisee's involvement in them;
- insurance, taxes, and other monetary obligations.

ANCHISING REGULATION

While franchising is more than ntury old, most regulation and slation has taken place in the decade.

Most significant is the Federal de Commission's 1979 Franchise requiring franchise companies

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INTERNATIONAL FRANCHISE ASSOCIATION IFA

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to disclose certain information up the offer of sale of a franchise. Th information required includes fin cial statements, background on th company and its officers, and oth information pertinent to the deci-sion-making process.

In addition, 15 states have passed laws requiring franchise companies to file or register a fran chise offering with a state agency

Today, state agencies where laws have been passed have broa discretion to ask for many kinds o information.

Legislation is in various stage of development in most states an the picture changes almost daily, according to the Interndtional Franchise Association (IFA) which monitors legislative activity for its members.

Many people in franchising a seeking standard forms and proce dures to facilitate compliance wit various franchise laws and rules.

ON THE HORIZON

The outlook for franchising is bullish. One major area of growth international franchising. Accordi to the U.S. Department of Com-merce, by the end of the year, 10 companies will have expanded internationally—30 of these res-taurant firms and 16 in the catego of auto parts and services.

WHY FRANCHISING?

Ask the many business perso who have realized the profit pote tial, tax advantages, and inflation hedges offered by franchising opp tunities. In hearing their answers, yet another reason for franchising discovered—it carries the excitem attendant in being in charge of on own destiny.

IFA: SELFREGULATION

By: Stanley Bresler*

The International Franchise ssociation (IFA), is a 21 year ld organization now comprised f almost 350 franchisors, vhose various businesses range rom ice cream stores and notels to burial vaults and onvenience stores.

Franchising is big business nd nationwide has created pproximately 488,000 outlets nd jobs for over 4.5 million eople annually. The total dolrs generated through franchisng in 1980 amounted to $338 illion, which represented 32% f our nation's gross retail sales.

Among the goals of the FA, which is headquartered n Washington, D.C., is the naintenance of high ethical tandards among franchisors nd the enhancement of the imge of franchising as a business orm. In pursuit of these ends, he IFA, through its By-Laws nd constantly updated Code of thics attempts to set the standards for its members' activies.

A myriad of questions face rade associations in their puruit of self-regulation, eg: How o monitor complaints and inormation? Whether each allegaon of wrongdoing should be nvestigated? How much formal act finding is feasible? What hould be the nature of the inestigation? Should there be anctions for inadvertent nonompliance? Through the throes f dealing with some of the ssues, the IFA has at least demnstrated that the association neans to enforce its Code of thics and that it intends to lay a major role in upholding igh moral and ethical tandards in the world of ranchising.

ey Bresler is chairman of Ethical Standards Committee.

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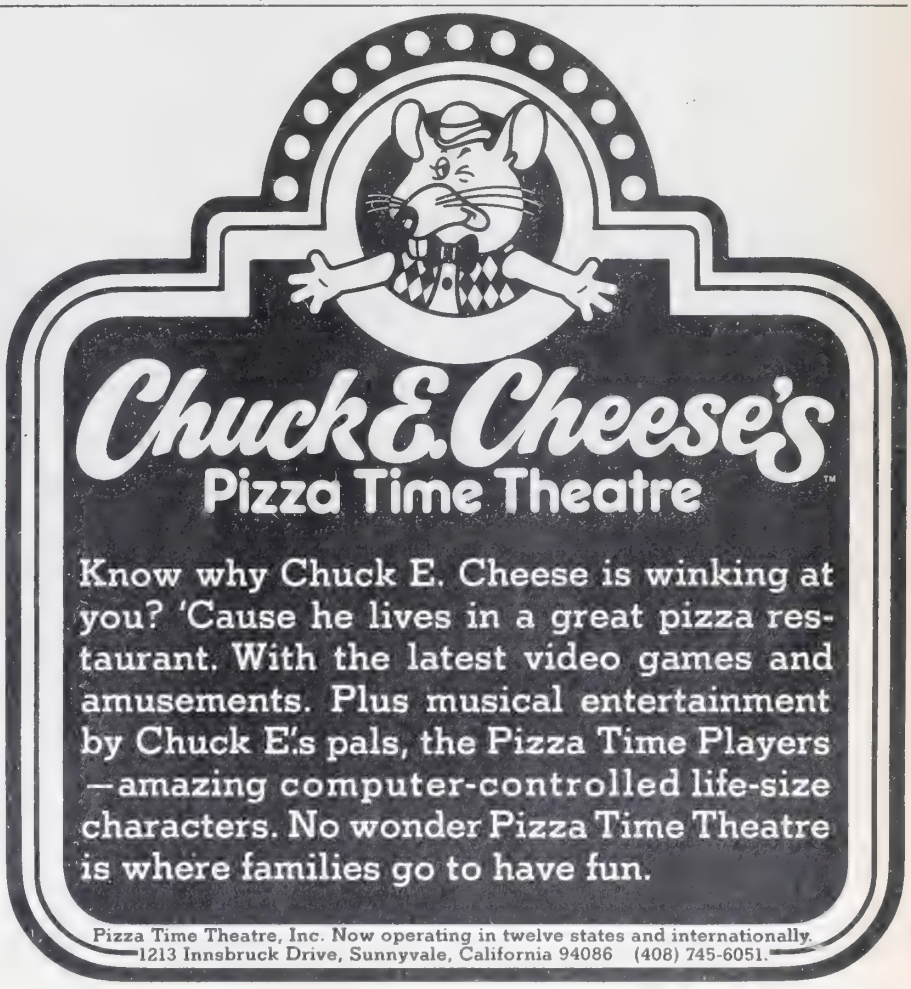


Faces Behind The Figures

Edited by Jefferson Grigsby

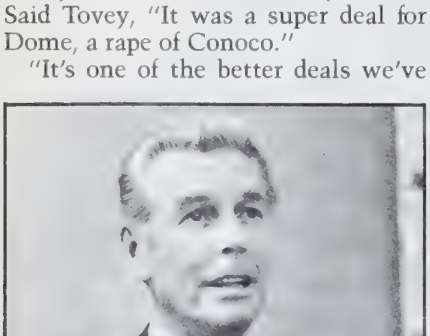
Smilin' Jack

John P. Gallagher, 64, the aggressive geologist who has run Dome Petroleum for more than 30 years, has looked for oil and gas in hostile environments, but rarely in one more hostile than this: Early this month Gallagher forced Conoco to render up its 52.9% controlling interest in Canada's Hudson's Bay Oil & Gas Co. by tendering for 22 million shares of Conoco stock and waiting until the world's ninth-largest oil company came across—after trying to sell Hudson's elsewhere, filing a half-hearted lawsuit and screaming in outrage about the deal's tax status ("a negotiating tactic," says Gallagher).

When the dust settled a few weeks later, Conoco had agreed to sell its Hudson's Bay stock in return for $245 million in cash and its shares back. Dome's total outlay: $1.675 billion for its 53% share of petroleum reserves, acreage and other assets now worth at least $3.7 billion, as valued by Joseph Tovey of New York's Tovey & Co. Said Tovey, "It was a super deal for Dome, a rape of Conoco."

"It's one of the better deals we've made," says Gallagher, and certainly one of the shrewdest: Canada's current energy policies might have barred non-Canadian buyers and since Dome paid largely in Conoco shares, Conoco may escape enormous capital gains taxes it would have had to pay in an all-cash sale.

Now, a sizable portion of Hudson's $250 million cash flow will go directly into Dome's exploration and property-acquisition budget, which totaled $550 million last year. Too, Hudson's Bay has only $110 million in debt, while $4.2 billion (assets) Dome, historically leveraged to the hilt, had about $2.2 billion in long-term debt before borrowing to acquire Hudson's Bay. "It complements our current picture beautifully," says Gallagher.—**Van Wallach**



Dome Petroleum's Gallagher
One of the better deals.

Visa's Dee Hock
A marketing pitch amid the rhetoric.

Dee Hock's holy war

"You're going to see the damnedest fight you ever saw if anyone tries to stop us," thunders Visa President Dee W. Hock. "The ongoing concentration of power among a few financial giants is morally reprehensible."

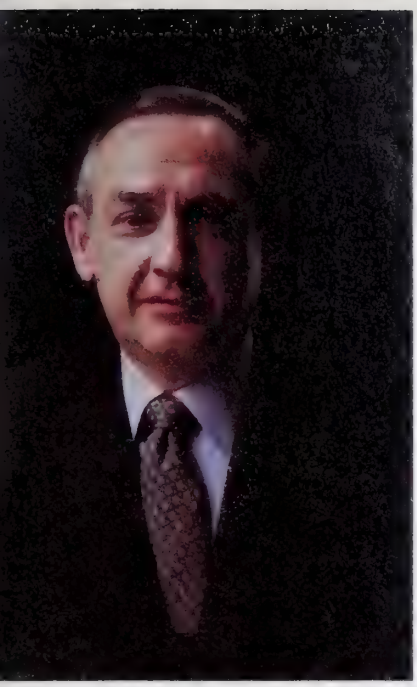
Needless to say, one of those financial giants is Hock's competitor, American Express, and its new acquisition, Shearson Loeb Rhoades. But there must be a marketing ploy somewhere in all that rhetoric, and there is: Hock's latest brainchild is a way, he says, to allow Visa's 14,000-member financial institutions to compete with money market funds. Hock says all the details haven't been worke out yet, but one possibility is that Vis could accept deposits through, say Pittsburgh's Mellon Bank, then tur around and invest in Mellon Banl CDs just as the money market fund do. Because Visa isn't a bank but service corporation owned by it members, it thus can get them int the money market fund busines through the back door.

At least that's the theory. Hoc made his announcement, howeve without first consulting his board o directors. Regulatory authorities als may not take too kindly to what is, i effect, a circumvention of the Glass Steagall Act. And the bankers them selves? "I fail to see where Mr. Hoc is going to offer us anything we can already offer our customers," drawl W.C. Bennett, president of the Inde pendent Bankers Association.

But Hock vows to press on. "Believ me," he says, "this isn't a capriciou announcement."—**William Harris**

Tosco gets tough

Tosco Corp. CEO Morton Winston i not your typical oilman. A professori al type he once taught English at th University of Connecticut and spen seven years as a Washington lawye before joining $2.4 billion Tosco, th nation's second-largest independen oil refiner as an executive vice presi dent in 1967. But Winston's bare knuckles attack on Kenneth M. Good the Denver land developer who re cently bought up 6.3% of Tosco'



osco's Winston
still fighting them off.

tock, is decidedly unprofessorial.

In a suit filed in federal district ourt in Los Angeles, Tosco alleges hat Good used "nonpublic" informaion Tosco had submitted to the State f Colorado on the $3.4 billion Colony il shale project Tosco is developing vith Exxon in western Colorado. The uit also alleges that Good obtained he information because of a "relaionship" with a female executive diector of the Colorado Department of ocal Affairs—a liaison, Tosco contends, that had already come to the attention of the Colorado state board of ethics. In April the board found the relationship between Paula Herzmark and Good to be a potential conflict of interest. Good denies receiving the documents.

Winston, 50, beat off Ashland Oil Inc.'s takeover attempt three years ago. This year a $38.7 million first-quarter loss caused the stock to drop as low as 19 (from 45 last November). So Good, who owns 4,000 acres of land on the western slope of the Rocky Mountains, some of it near the Colony project, picked up over a million shares of Tosco for around $27 million.—**Kathleen K. Wiegner**

Copying success?

Canon burst on the camera market in 1976 with a single-lens reflex, 35mm model so technologically advanced that the Japanese giant quickly became the market leader. The company's latest foray is a little dicier—a new push into the small copier field, based not on revolutionary technology but on price.

Canon now has about 20% of the low-end copier market. Last month it introduced the NP 400F, which is desktop size, has an enlarger, two reducers, automatic feed and can make up to 40 copies a minute. Others can do that, too, concedes Canon U.S.A. President Fujio Mitarai: "Technically, anybody could build this machine. But put together its features and then realize our price."

anon's Mitarai
a little dicier this time.

The copier market is already ravaged by price-cutting. Since demand for small copiers is growing 20% a year, Mitarai believes Canon can hew to its $8,495 price on the 400F for a while. "Our strategy has always been to offer a very reasonable price and stick to it," he says. "I don't like to make pricing a sticky business." But, he says, he may have to cut it if the competition—including Savin, Ricoh, Minolta and Pitney Bowes—keeps cutting.

Mitarai has no current plans to tackle Xerox, Kodak and IBM at the high end of the market, since he sees companies trying to take copiers out of one central room and put smaller ones closer to the people who use them. If demand keeps growing, Canon may build a copier plant for the low-end machines here in the U.S. That, too, may detract a bit from Mitarai's sanguine view of the market: Canon U.S.A. is 100% "self-financed," and if it builds, it has to borrow.—**Barbara Rudolph**

Banking on a divorce?

Why is Morgan Guaranty selling most of its 33% interest in London's top-drawer merchant bank, Morgan Grenfell Holdings? It hardly needs the $47 million it will get from the sale—what with assets last year of $50 billion. Indeed, $3.2 billion (assets) Grenfell, whose own 1980 net earnings rose 43%, to $14.9 million, would seem a good investment.

The probable answer: After seven years with a New York representative office, Grenfell is incorporating, and that means going head-to-head with Guaranty in hugely profitable areas like private placements, denied to it while an unincorporated subsidiary. "The two events aren't necessarily related," contends the London bank's new U.S. President John Fraser, gazing wistfully out the window of his 34th-floor office in Manhattan's Seagram Building. "Anyway," he says, "we've competed with Morgan Guaranty for years. I can't imagine our little mosquito will cause them much concern."

Maybe. But the Milwaukee-born Fraser, 46, who went to Yale and Harvard Business School before joining White Weld, First Boston and then, in February, Morgan Grenfell, clearly sees room for Grenfell to grow and a place in the U.S. for the British way of taking care of clients. "Some U.S. banks want to do deals regardless of whether the transaction makes sense for a client," he snaps. Why? "They have large, highly paid staffs." He's right, Morgan Stanley alone has over

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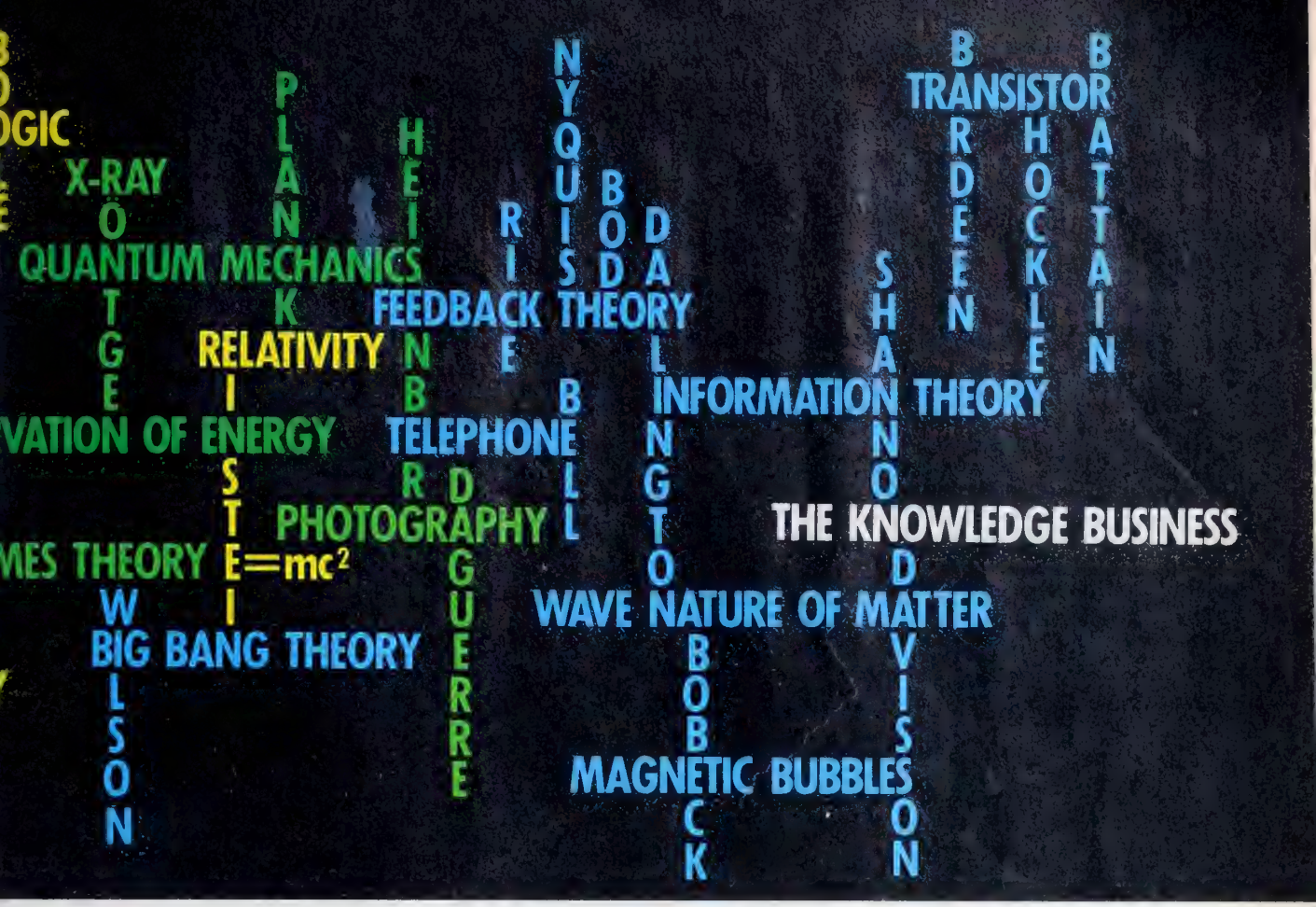

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The knowledge business

John B. Fraser, president of Morgan Grenfell Inc.
"I can't imagine our little mosquito will cause them much concern."

50 people in its merger and acquisition department. Grenfell's total U.S. staff is 15. "That," says Fraser, "means we can take a somewhat different view."—**Maurice Barnfather**

Beta, shmeta

You'll hear soon about Arnold R. Schmeidler. Performance figures for independent money managers have only recently become available—and his small New York firm heads a list prepared by Computer Directions Advisors of Silver Springs, Md. Schmeidler's record: an 88% return for the 12 months ending in March. For the last six years, gains have averaged 32% compounded.

The secret? Schmeidler isn't content with one-decision stocks. His A.R. Schmeidler & Co. is into one-decision portfolios. It has investments in roughly 30 companies, all but 2 in domestic energy production. Still, Schmeidler blithely describes his strategy as "avoidance of risk."

Schmeidler, 44, is a would-be classical pianist who spent ten years as a part-time page-turner for Arthur Rubinstein. He went to work on Wall Street when he graduated from Columbia Business School in 1959, starting his own firm a decade later. Today he and 16 associates manage $300 million for about 300 clients.

But Schmeidler may be a Johnny-one-note. He's heavily into smallish oil and gas stocks. His stocks' average beta, or volatility factor, is 1.8, 80% higher than the market's as a whole. Conventional measures of risk be damned, Schmeidler argues. He thinks it's safer to buy General American Oil even at 17 times earnings, with its 600 billion cubic feet of gas reserves and 79 million barrels of oil, than GM or AT&T, which he feels have little chance of keeping earnings up with inflation.

Maybe so—but it would be nice to know how such a high-flying money manager does in a different market. Unfortunately, Schmeidler says, he can't tell us. Pre-1975 performance data are unavailable.—**William Baldwin**

Money manager Arnold R. Schmeidler
Wall Street's Johnny-one-note.

Faces
Behind The Figures

If you can't beat 'em . . . sell to 'em

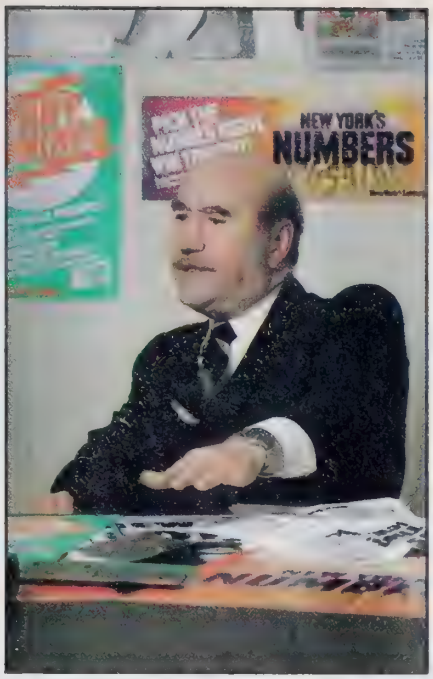
Interstate banking would have arrive years ago except for the opposition small banks, which fear that the money-center counterparts will p them out of business. But one sma banker who would welcome inte state banking is Thomas Richardso 58, the crusty chairman of Stamfor Conn.-based, $1.3 billion asse Northeast Bancorp.

"The idea that bigness is bad nonsense," says Richardson, wh joined Northeast's flagship ban Union Trust Co., 34 years ago. The is plenty of banking business for e erybody, he maintains, in serving th corporations that have flooded in Connecticut's gold coast in rece years. "We have as many blue-ch corporations as any other area of th country," he says, "yet we don't ha the capital to serve them."

But what happens if the big boys t to gobble up local institutions? "I we come the prospect of being acquired says Richardson. "It would be good f our employees, our customers and o shareholders."

In fact, if Congress doesn't repeal th McFadden Act, which prevents bank

chardson of Northeast Bancorp
et it come, let it come.



New York Lottery's John Quinn
A mini-industry to itself.

Fthenakis of American Satellite
Who's afraid of SBS?

om operating out of state, Richardson ould be inclined to look at an insur- ıce company or even an overseas ınk for a partner, "although I would efer to merge with a good, solid merican bank." But Richardson be- eves that interstate banking may be st around the corner. Regulators will e forced to allow big banks across state nes to bail out thrift institutions in ınger of going under, he says. "Pretty on every bank will have to decide hether to be an acquirer or an ac- uiree."—**Thomas O'Donnell**

The gambling czar

The lottery is not an investment," ıys John Quinn. "It's a form of recre- ion." If so, Quinn's New York State ottery is a recreational mini-indus- y in itself: It has grossed more than l billion in the last five years.

Last year, after three years of sag- ng sales, revenues jumped 26%, to a cord $233 million. Earnings—that oney going to state education after izes, vendor and distributor com- issions and expenses are paid— pped $102 million, also a record. uinn, a New Yorker brought in from e Michigan lottery in 1976 to clean and head the Empire State's oper- ion after it was suspended because irregularities in 1975, attributes the 980 rise to market segmentation: ew York's old lottery offered only ıe game, a weekly drawing of pre- inted numbered tickets.

Quinn introduced the Instant Lot- ry, which lets a player know on the spot if he has won. Then came Lotto, a weekly game in which the bettor picks his own numbers and finally, the "Daily Numbers," a game with a 500-to-1 payout that's frankly designed to compete with the illegal numbers rackets' 600-to-1 payout.

But Quinn is facing competition on other fronts. Potential New York lottery revenues are leaking across state lines to competing games, like New Jersey's daily Pick Four, a popular pari-mutuel game, which pays out about 5,000-to-1. Quinn's solution is Win Four, a similar game with equivalent payout odds. That, he hopes, will boost 1981 sales to $410 million.—**Jeff Blyskal**

Who? Me worry?

"It will be an epic!" says Emanuel Fthenakis, chairman of American Satellite Co. For six years ASC has had the satellite transmission of high-speed data, voice and video largely to itself. (RCA, one of its two main competitors, focuses largely on cable TV services, while Western Union, the other, concentrates on voice and low-speed data.)

But now Manny Fthenakis (pronounced Fen-ACK-is) hears behind him the tramp of a giant: It's Satellite Business Systems, which started operations this year and is backed by the formidable trio of Comsat, IBM and Aetna (combined sales, $39.8 billion). ASC is a joint venture of tiny (by comparison) Fairchild Industries and Continental Telephone Corp. (combined sales, $2.2 billion).

ASC has used its time advantage well, attracting such customers as Dow Jones and the *New York Times* (which transmit to regional printing presses via satellite), Western Bancorp, Sperry Univac, Bank of America and Federal Express. Altogether, customers like that could make up a multibillion-dollar market by 1990. And that market is what SBS is taking dead aim at.

Fthenakis, a Greek-born U.S. citizen with a string of communications satellite component patents and experience at Bell Labs, GE and Philco-Ford, maintains that ASC has a proven service as well as a creditable customer list. Nothing if not confident, he says: "Our technology is ahead of IBM's."

ASC's revenues will be about $20 million this year and the company, Fthenakis says, will go into the black for the first time. So it would be particularly galling if SBS took away the market just as his efforts were bearing fruit. That won't happen, says Fthenakis. "Let's look at everything that's happened since the FCC decided to deregulate the communications industry. What emerged that was different? Only two new companies: terrestrially, MCI; satellite, American Satellite. Many others tried—Western Communications, Hughes Aircraft—but they all fouled out. From zero, we started. From the beginning we went right straight on. It will be written in history!"—**Laura Saunders**

BEYOND MEDICARE: LET THE BUYER BEWARE

PHOENIX—A few unscrupulous insurance agents were playing on the fears of the elderly. They told scare stories about major illnesses that could cause financial ruin. They sold medical insurance policies they promised would pay all bills Medicare does not cover. The policies often provided much less coverage than the agents claimed.

Reporter David Page and photographer Bill Timmer of KPNX-TV in Phoenix investigated complaints about these misrepresented policies.

Using a hidden camera, they documented actual sales presentations by insurance agents to a 72-year-old widow. The evidence supported complaints that agents were glossing over details and leaving out important information about waiting periods, policy exclusions and limitations. It was information the elderly insurance purchaser usually found out too late.

The KPNX-TV investigation aired in a four-part series, "Policies and Promises."

As a direct result, the Arizona Insurance Department acted against those who were giving the health-insurance industry a bad name. It suspended six agents and revoked the licenses of three others. Facing possible cancellation of its permit to sell insurance in Arizona, one company agreed to a plan which could return more than $250,000, and a third of that amount has already been refunded to 654 victimized policy holders.

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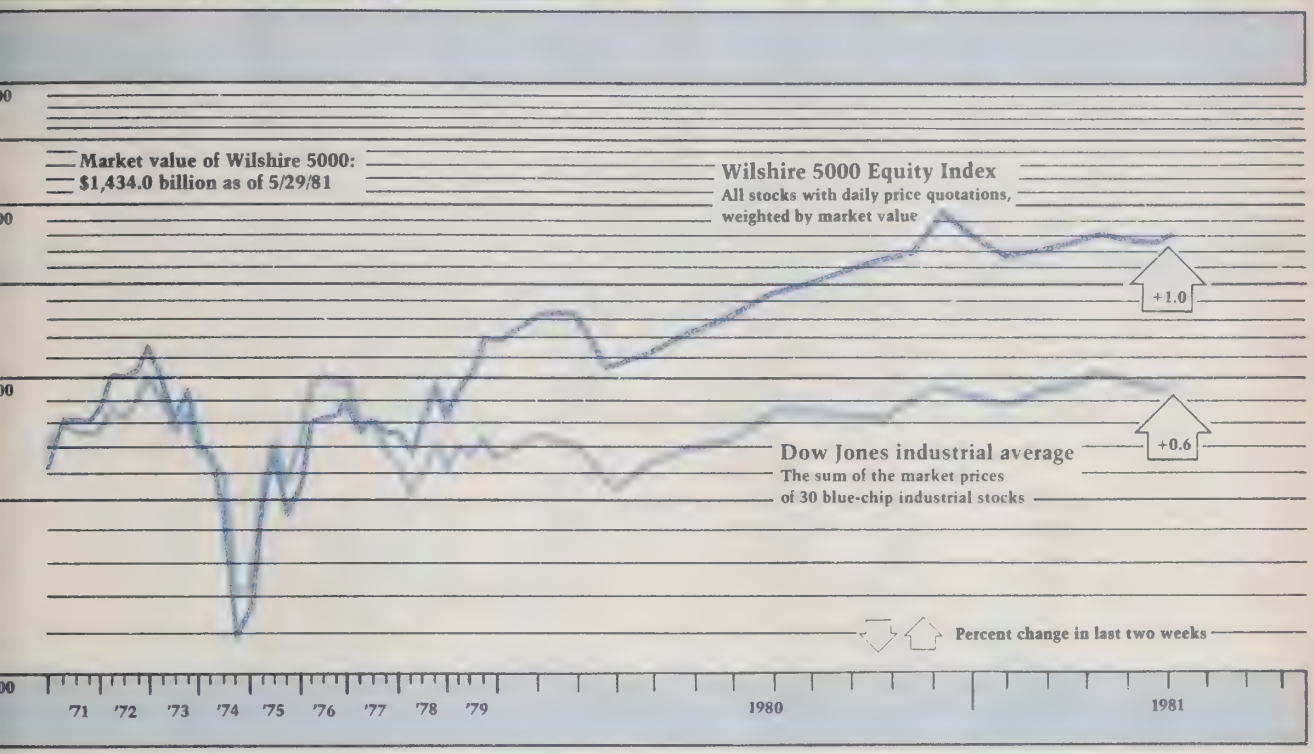
GANNETT

A WORLD OF DIFFERENT VOICES
WHERE FREEDOM SPEAKS

The Forbes/Wilshire 5000 Review



eep your seat belts fastened! The market snapped t of a dive and appears headed back toward higher altides. Wall Street reacted favorably to the most recent und of reductions in the prime rate and some encouraging les figures from Detroit. All the major market indexes ade some headway in the last two weeks. The broadly sed Wilshire 5000 gained a full 1%, with the biggest lift ming from the NASDAQ stocks—up 3.2%.

Forgetting the intermediate ups and downs, these have en a great 52 weeks in the stock market. ASE and NASDAQ dexes are up 38.8% and 48.5%, respectively. The 30 ponderis stocks that make up the Dow Jones gained a respectable 16.6% while the S&P's 500 moved up 19.2%.

Roy Anderson, manager of statistical research at Standard & Poor's, says that the S&P's 500 would have done even better but for the flat performance of the major oils. Oils make up approximately 19% of this index. Office and business equipment is another slow group in the S&P's 500. In the past 52 weeks this group, which accounts for about 6% of the S&P's 500, gained only 8%. The ASE index is also heavily weighted by oils. The ASE oils are generally smaller and include exploration and service companies that still charm some speculators. The ASE index shows a tremendous gain of almost 39% over the past 52 weeks.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
n last 4 weeks	1.4	–0.4	0.3	5.8	3.1
n last 52 weeks	25.3	16.6	21.4	38.8	48.5

Stock performance based on five key investor yardsticks

Percent change	Volatility *		P/E multiple		Dividend yield		Growth profile †		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	3.6	0.9	4.4	0.6	0.4	4.3	3.9	1.2	0.6	4.4
in last 52 weeks	78.3	17.0	75.0	33.4	9.9	62.8	66.6	27.5	31.4	64.8

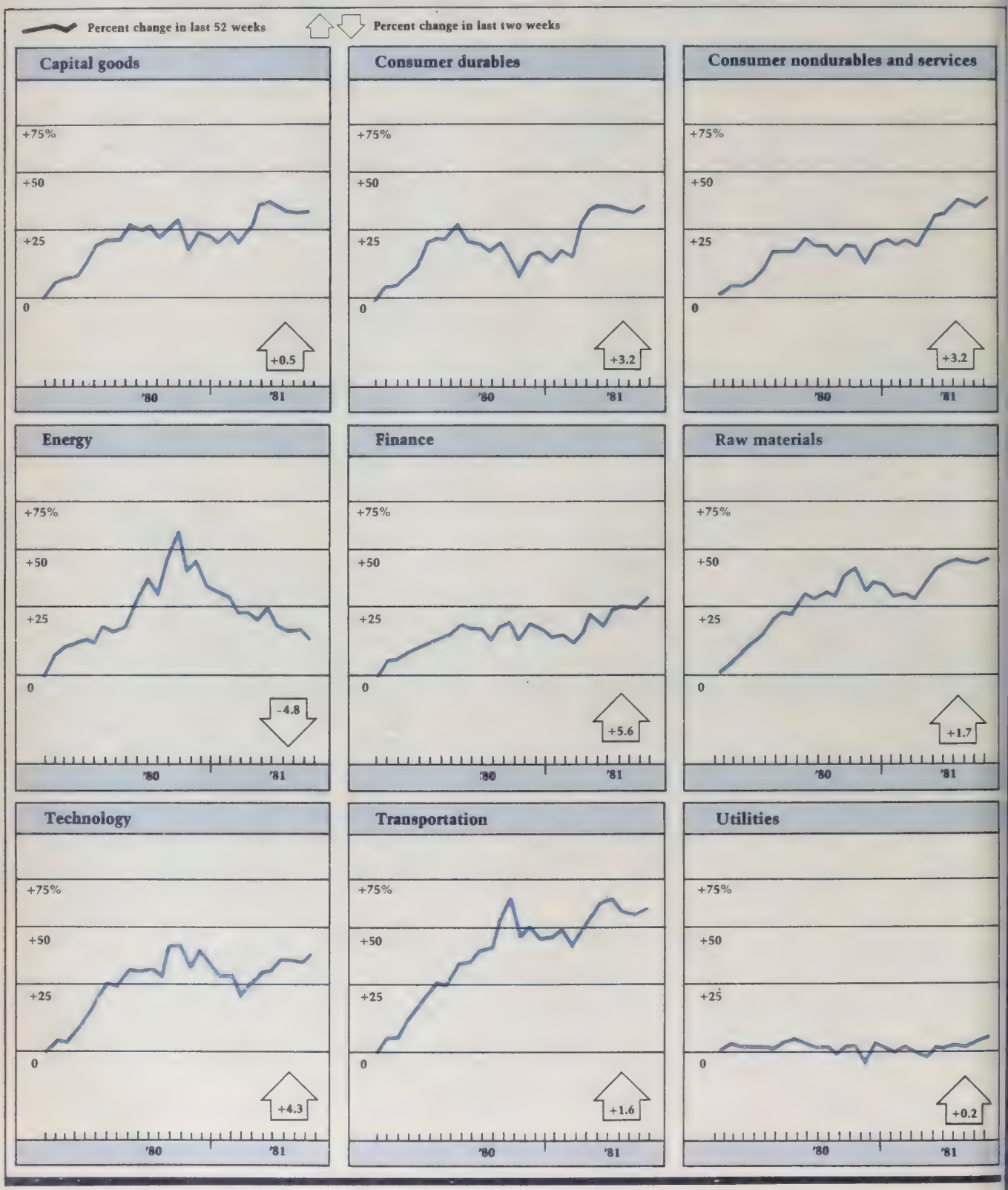
stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

te: All data for periods ending 5/29/81. Prepared by Wilshire Associates, Santa Monica, Calif.

Everything else goes up when energy goes down. While the oversupply of oil will crimp the profits of the oil companies it also means less expensive energy and petroleum feedstocks—a plus for almost everyone else.

Outside the energy sector the utilities were the only group that did not perform better in this two-week period than the last. The utilities, however, made big gains in the preceding period, so the lack of movement is neither surprising nor, necessarily, a portent.

The finance sector, up 5.6%, was the best performer in the past two weeks. Merger fever still rages in the brokerage industry, a major component of the finance sector, but banks too, pepper the new-high lists. Technology rebounded strongly from its decline in the previous period, gaining 4.3%.



Note: All data for periods ending 5/29/81. Prepared by Wilshire Associates, Santa Monica, Calif.

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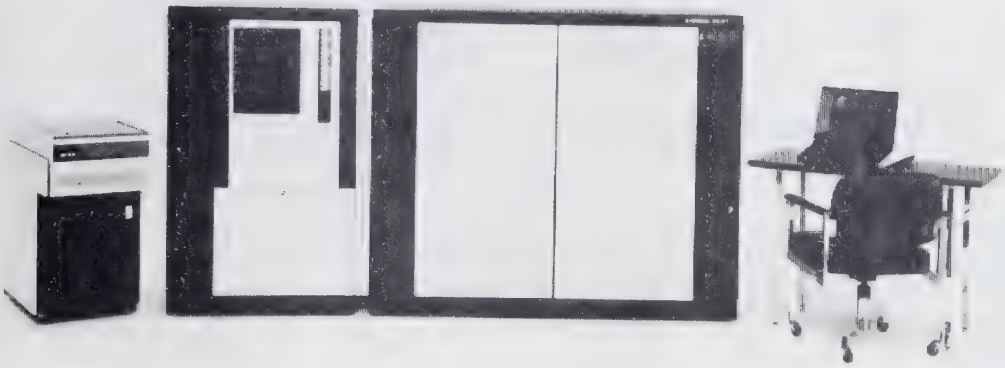

With the new CONCEPT 32/87 from our Systems Engineering Laboratories subsidiary, Gould introduces the kind of truly awesome computer power that represents a quantum leap forward in computer technology. With its 3.6 MIPS, the CONCEPT 32/87 can provide up to three times the processing power of any 32-bit minicomputer that has been developed, and without a proportional increase in price.

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If you'd like to know more about our building block strategy, please write Gould Inc., Investor Relations, Department D-4, 10 Gould Center, Rolling Meadows, Illinois 60008.

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IRVING D. ISKO
President and Chief Executive Officer

"We've just appeared on the Big Board. And we are already one of the nation's largest corporations.

How is it possible?

On May 20th, the stockholders of Engelhard Minerals & Chemicals Corporation approved a plan to create an independent New York Stock Exchange listed company named Engelhard Corporation. (Our ticker symbol is EC.)

This new company is comprised of the Engelhard Industries and Minerals & Chemicals Divisions of the former Engelhard Minerals and Chemicals Corporation.

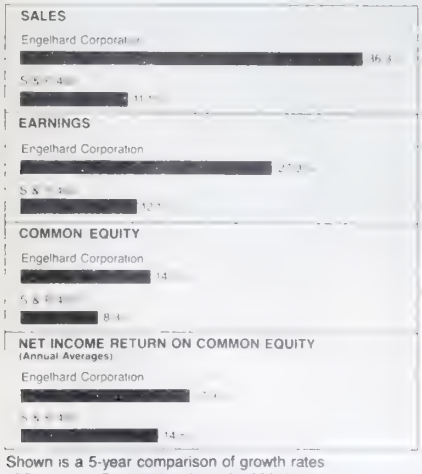
During the past five years, the aggregate sales of these two businesses grew at a compounded rate of over 36%, reaching $3.2 billion in 1980. Earnings totaled $66 million in 1980, and have grown at a compounded rate of 27%–more than twice the average achieved by Standard & Poor's "400" industrial companies.

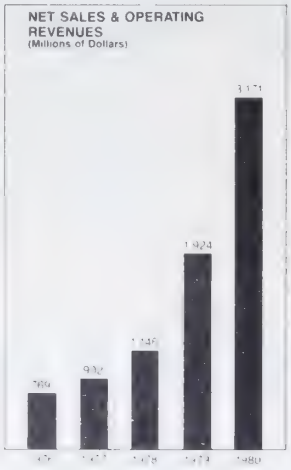
What do these Divisions do that's so profitable?

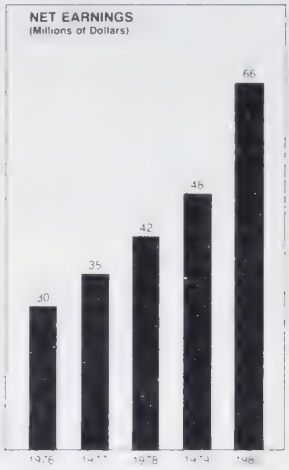
Engelhard Industries is a world leader in precious metal technology, in the manufacture of precious metal products and the refining of materials containing precious metals. Its products go into electrical and ele tronic components, chemical ar petroleum processing, metalworkir products and pollution control sy tems. It also supplies the automoti industry with catalysts to contr emissions.

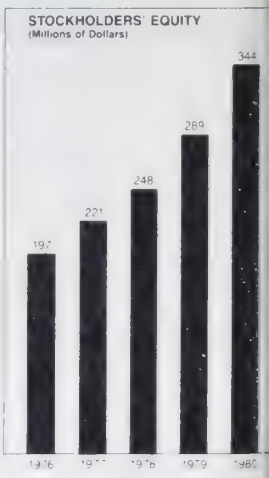
Minerals & Chemicals Divisic supplies the petroleum industr with catalysts and technologies th maximize the return on a barrel crude. It also produces and marke performance products to the pape paint, plastics and pharmaceutic industries.

For a new company, Engelhar Corporation has a remarkable pas We expect to have an even bett future."









Shown is a 5-year comparison of growth rates of Engelhard Corporation through 1980 (based on pro-forma dollar amounts of its two divisions) and the Standard & Poor's index of 400 companies through 1979.

ENGELHARD CORPORATION

Menlo Park, CN 40, Edison, New Jersey 08818

Want to shoot crap? Why not try the bond market (yes, the bond market).

A SWINGER'S GUIDE TO BONDS

By Ben Weberman

No longer are bonds a dull backwater. Today, a bond can swing over four or five points in one day and then go back just as quickly.

Where you find fluctuations, you find opportunities. How do you play these opportunities? The safest way is to buy Treasury bonds yielding 13.25% for the next 30 years or a note paying 14.75% a year for three years. These are rates that money market mutual funds will find it hard to meet over the full lives of the issues.

Want a greater return than 13% or 15%? Try leverage.

Here are some of the techniques for leveraged speculating in bonds. Least risky is the purchase of low coupon, deep discount bonds. Want even more leverage? Try a Treasury bond futures contract. For an initial margin deposit of about $3,000, but possibly as low as $2,000, a contract can be arranged to buy $100,000 of bonds at a time specified for future delivery.

First let's look at a bond purchase leveraged with a loan. Margin is not easy to arrange through a stock house. Most account executives don't know what to do if they are handling anything other than equities. A commercial bank would be more appropriate for this type of transaction, but many bankers do not know what to do either, I fear. So you may have to shop around.

If you can borrow for about 75% of the market value, the bank rate would be somewhat greater than the brokers' loan rate, probably close to the prime lending rate. For this example assume that the bank interest charge is 20% per annum.

The *current* yield on the Treasury 10s of 2010 is 13%, but the bank charge is 20%. You pay $780 for the bond, which yields $100 a year, and pay $117 on the $585 you borrowed. So you are out of pocket $17 a year on each $1,000 bond. But if interest rates drop, say to 12% from 12.9% currently, the price of the 10s would rise to 84 from the current 78, a price improvement of 8% or $80 per bond—a 41% profit on your cash investment of $195 per bond.

Want greater thrills? Turn to the organized futures exchanges. The Chicago Board of Trade lists contracts for future delivery covering a $100,000-par-value, 8%, 20-year Treasury bond. Delivery months are March, June, September and December. Delivery is permitted for any outstanding Treasury bond maturing in 15 years or beyond.

The risks are great. On a $100,000 contract, for example, one point change in price is worth $1,000. If the contract price is 77 and moves to 74, the initial margin is cleaned out. Let the price rise to 80 and the investment doubles.

Here's how the contracts work. Suppose you buy the September 1981 contract at 65, the yield is 12.91%. If interest rates drop, the bonds would return only 12% and the futures contract then would be quoted at 70. At a return of 11% the contract would go to 76. The price of 70 would generate a profit of $5,000—compared with the margin of about $3,000. The price of 76 would give a profit of $11,000.

Just remember though: This is gambling, not investing.

Ben Weberman is economics editor of FORBES *magazine.*

Seven-year hitch

At last count, money market mutual funds had $118 billion of other people's money. Manufacturers Hanover Trust Co. has come up with a new type of debt instrument to get a piece of that huge sum.

The new seven-year note pays interest monthly at a rate pegged to the 30-day commercial-paper yield. The yield will be adjusted weekly. Therefore, it will fluctuate much more widely than the yields of the money market mutual funds, which are based on actual returns on the securities in their portfolios. These typically have an average maturity of 25 to 30 days.

When the new notes were announced in late May, the yield on 30-day commercial paper was 18.25%. Investors would receive interest at that level through the week ended June 2. During the same period, money market mutual funds were paying an average 16.4%.

Manny Hanny's new notes are better in quality—Triple A—than quite a lot of stuff held by the money market mutual funds.

However, fund shares are very liquid. Money can be drawn out immediately by check. A holder of the Manny Hanny notes, in contrast, would have to sell on the open market and wait for the transaction to clear. Sale of a debt security through stock houses can also be a headache; account executives aren't crazy about dealing in small pieces of paper. A $100,000 block is considered a round lot in the debt markets.

Oddly, the idea for these notes came from Merrill Lynch White Weld, sponsor of the $16.5 billion Ready Assets Trust, the nation's biggest money market mutual fund. Merrill Lynch becomes the lead manager of the underwriting, and probably will maintain active secondary markets prepared to deal in small-size blocks. Since Merrill Lynch account executives receive no commission for handling orders for money market mutual funds, presumably they won't be sorry to see the substitute, which will bring a modest selling commission. ■

Even if all the current ifs in the economy become reality, it would not induce me to invest in bonds or utilities.

WHEN INTEREST RATES COME DOWN

By Heinz H. Biel

The financial community is paying too much attention to short-term money rates, which recently topped the 20% mark again. To be sure, a financially weak company with a heavy burden of short-term debt will be crucified if it has to pay that much on its bank loans. This is especially true if it has no profits from which it could deduct the interest cost. But the investor is, or should be, more concerned with the level of longer-term interest rates than with whether the prime is 12% or 20%.

What are the chances that long-term interest rates, which fluctuate far less than money rates and seem to hold stubbornly around 15%, will come down significantly? This depends largely on the success or failure of the Reagan economic program. *If* the proposed three-year tax cut plan is accepted by Congress. *If* the extra income is invested rather than spent. *If* inflationary expectations are lessened. If all these ifs come to pass, then a lower level of interest rates becomes a realistic prospect. That's a lot of ifs, and I'd feel far more confident if a strong incentive to save and invest were incorporated in the Administration's program.

If all this came to pass, what would it do for the investor? Obviously, bonds would appreciate as yields decline, and yield-sensitive stocks, such as electric utilities and savings and loan companies, would also respond. More important, however, stocks in general would benefit, because lower interest rates would most likely result in a higher P/E ratio than we have at present.

Yet, all this would not induce me to invest in bonds or utilities. Once bond prices have adjusted to the new level, that would be it—a one-shot capital gain. Nor would utilities become more attractive. Their problems would be alleviated only slightly, but not solved. The effect on corporate profits in general also would be minor—except for companies that have been most severely affected by high interest rates, *i.e.*, primarily the builders of residential homes. The latter would be the really *big* winners. Who are they?

A whole slew of companies have a stake in that business, ranging from the producers of timber and other building materials to the makers of major appliances and home furnishings. The most direct beneficiaries of a revival of this deeply depressed area of our economy would be the home builders themselves.

The sad state of this market is due primarily to forbiddingly high mortgage rates, which make the purchase of a home unaffordable for an ever-growing segment of our population. The automakers, too, have suffered from the effects of high financing costs, but a house involves about ten times as much money as the cost of a car.

My strong preference among the home builders is *U.S. Home Corp.* (28), the country's largest builder of single-family homes, with sales exceeding $1 billion, which has come through this difficult period with flying colors. U.S. Home's revenues (over 90% from single-family homes) and per-share earnings have increased in every year since 1974, setting new records in 1980. The company's return on equity topped 20% last year, which, although a bit lower than in the two preceding years, is respectable in any line of business. The stock's performance reflects such success, reaching an alltime high of 33 in March, despite the deep slump in residential construction.

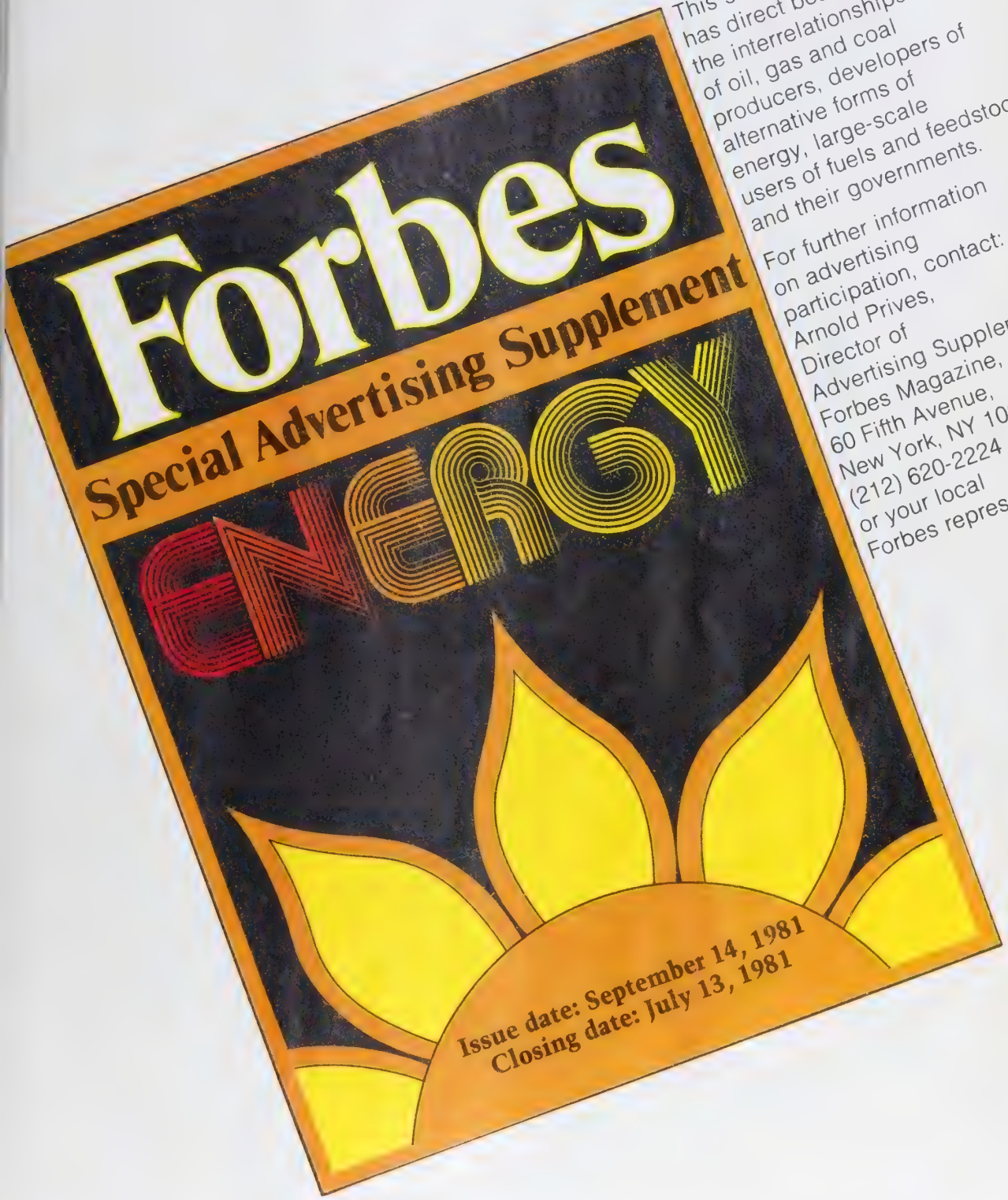
How did U.S. Home manage to accomplish what seems to be a miracle? Of course, it is management. To begin with, U.S. Home has favored the so-called Sunbelt. People moving there often have sold their old homes in other parts of the country and are, therefore, in a better financial position to buy a new one. The company also has demonstrated its flexibility by shifting its product mix from single homes to attached condominiums close to urban centers and to retirement communities as well as resort housing.

Since the financing of a home purchase is a greater problem than the actual cost of it, U.S. Home assists the buyer in the financing rather than cut its prices. While this has a negative effect on profit margins, it does maintain the momentum and the momentum is most impressive indeed. In this year's first quarter it delivered 4,120 homes, up 13% from the corresponding 1980 period. As a matter of fact, deliveries were the highest for any quarter, except for the seasonably stronger third quarter in 1979 and 1980.

Although first-quarter earnings dropped to 80 cents a share from 92 cents the year before, due largely to the financing help given to new buyers, estimates for the full year are in the $3.50-to-$3.80 range, up from $3.32 in 1980, the previous record. Evidently the strong sales momentum is expected to overcome the additional expense. Considering that we are talking about a company operating in a deeply depressed industry, this would surely be a most remarkable result.

I do not know whether, when or how much interest rates will decline, but in view of U.S. Home's past record, it can be taken for granted that this company will be a strong beneficiary and resume its excellent rate of earnings growth of earlier years. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.



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TIME's purpose is to make the news make sense; hence our weekly radar sweep of everything happening everywhere. But on rare occasions, one subject seems to demand an issue all to itself. The Soviet Union, so much talked about, so little understood, was just such a subject.

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Oil is dandy but timber's dandier.

THE CASE FOR WEYERHAEUSER

By John Train

A quiet "store-of-value" stock for the long term is Weyerhaeuser. It's selling cheaply in the market because much of its earnings is related to the housing cycle, which is down at the moment.

And yet for the long term we have to build houses, and Weyerhaeuser will get its share.

Weyerhaeuser is the only American forest products company that enjoys complete self-sufficiency in timber. In fact, it holds 60% of all corporate-owned timber in the country. And timber resembles oil: The worldwide shortage is intensifying, so prices will go up long term.

Timber, though, is a better resource to own than oil, in a number of ways. The timber industry isn't an easy target of regulators and tax collectors the way "big oil" is. It's a major source of income for millions of farmers, not just for a handful of oil producers. And, historically, the timber companies have fully held their own against unreasonable regulation and tax. Basically, Weyerhaeuser's profits are so arranged that the company pays taxes at a capital gains rate.

In Weyerhaeuser's case, the forests are not only in America—a lot safer than the Middle East—but in a preferable part of America, on the Pacific side of the Cascade Range. That's the best position for selling to the Japanese market, to which Weyerhaeuser is the principal supplier. Japan is the perfect customer: rich, deficient in timber, and building as many housing units a year as we do in the U.S. Time is on Weyerhaeuser's side: Japan's traditional sources of supply in South Asia are becoming gravely overcut.

Over the last 100 years timber has risen steadily in price, somewhat faster than inflation. It is, in other words, an excellent store of value. Also, however, there is the intrinsic physical growth of forests: several percent a year. So you have gold with an income, as it were, although with lower liquidity and zero transportability. (Weyerhaeuser's earnings growth runs at a steady 15%. It yields just under 4%.)

Timber, unlike oil, is an infinitely renewable resource. An oilfield is depleted over some finite number of years, whereas a well-maintained forest not only replenishes itself but may improve, if the company upgrades when replanting. (Weyerhaeuser spends a lot on developing improved tree varieties.)

Timberland has several curious features, shared by almost no other investment medium. First, the supply is inelastic, unlike gold or oil or most resources. At a price, there is more gold and oil in the world than it has so far made economic sense to produce. But whatever happens to the price of timber, you won't have any sudden increase in the number of available trees to upset the supply/demand equation.

This price inelasticity has produced a leveraged increase in the price of timberland in recent years. Depending on what kind of timber you are talking about, the price of

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters *and* Dance of the Money Bees.

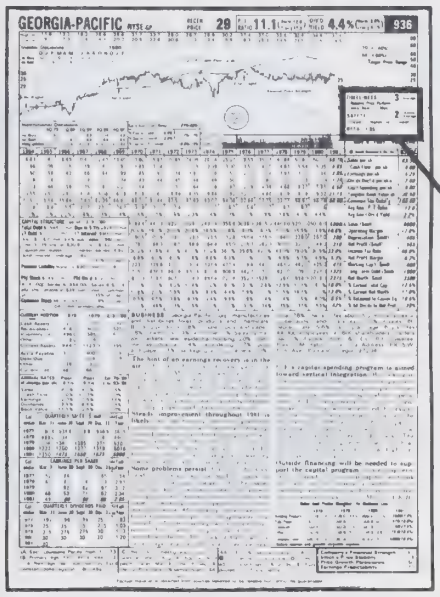
ood (called a stumpage) has in-
eased 15% or so a year over the
st decade—inflation and then
me. Timber*land*, however, has in-
eased a good 20% or more, while
oducing a modest net income. If
ere is hyperinflation, high inter-
t rates will result, slowing housing
emand, which is bad for timber.
nd *de*flation, meaning lower de-
and, would be very bad for prices
timberland. So the best economic
vironment for timberland prices
ems to be moderate inflation—
so the most likely one.

Substantial foreign investors are
ten more familiar with the merits
timberland as a store of value
an Americans are, just as they
nderstood the investment interest
gold long before we did. But when
foreign client asks me if it
ouldn't make sense to buy a wood-
t, I reply: "Sure, we can do it for
u if you want us to. We're familiar
ith the subject. But why not just
y stock in Weyerhaeuser? You get
vo dollars' worth of excellently
anaged timberland per dollar of
are price. At the same time you
t a well-run business free, with
ts of other assets thrown in: mills,
ctories, ships specially built for
e Japan trade, and a complete port
the Pacific."

Furthermore, I tell my foreign cli-
nts, one mustn't bring European
ejudices to the American market.
most European countries there
e grave potential disadvantages to
wning stock in a company that
e doesn't control. The insiders
ilk the situation, and you can't get
e real facts. So most experienced
uropean investors prefer to own all
something: an apartment build-
g, a farm, a forest. Here it's quite
fferent. If management is honest,
Weyerhaeuser's is, you're better
f having 40,000 allies—your fel-
w stockholders—if there's trou-
e, whether man-made or natural.
nd, of course, the liquidity of the
ock is a great advantage.

In the Northeast the price of oil
nd coal has gone up so high that
nverting your house to wood-
ove heating now pays off very
uickly. In other words, the margin-
price of wood will henceforth be
stained in rural areas over much
the country by its value as fuel as
ell as by its value as a building
aterial. ■

2 things you should know about EVERY stock that concerns you:



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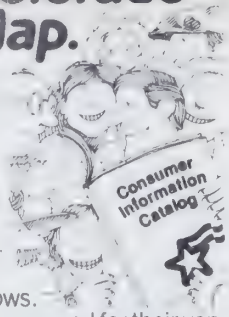

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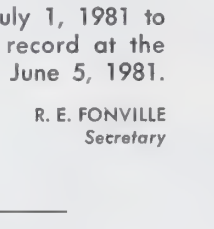

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A recent flood of articles proclaim that investors now reflect the nation's new mood. But where's the evidence?

WHERE HAVE THE INVESTORS GONE?

By Srully Blotnick

Do me a favor, will you? If you run into any investors, as opposed to trigger-happy speculators, give them my name. I want to talk with them. Right now, my entire sample is full of restless and impatient gamblers, all waiting for the next horse race to start. They look more conservative now, but don't let appearances fool you.

Ever since Reagan's election, there have been an increasing number of stories in the press about the nation's shift toward conservatism. Nowhere is that switch more evident, we've been told repeatedly, than in the financial thinking of Americans.

The new buzzwords are "reindustrialization" and "productivity." The phrases that assault us constantly now are "there's no such thing as a free lunch"; "back to basics"; "a new emphasis on growth"; and "a renewed dedication to research and development."

It sounds so good. "We're back on the right track now," it seems to be saying. How comforting that is to hear. After all, who doesn't want greater prosperity? The measures proposed thus far are not only what the doctor ordered, but clearly what the general electorate wants as well. Criticizing the shift in th country's thinking would be as un patriotic as finding fault with Mon and apple pie.

So the press has unwittingly car ried the process a step further. A flood of articles has appeared i recent months claiming tha Americans by the millions are no only thinking but *acting* in accor dance with the new mood. The spe cific shift referred to in many of th stories that intrigue me most con cerns the stock market. To summa rize their argument briefly: An in flation-hedge mentality prevailed throughout the late 1970s and 1980 but with the rise to power o the Reagan-Stockman-Regan team there has been a resurgence of inter est in basic industry. Since the U.S is in critical need of a higher rate o savings and capital investment people playing the market have rec ognized that need at last an changed their ways. From here o out investment, not speculation will be the order of the day.

I don't doubt for a moment tha the people responsible for those sto ries believe every word of them Yet, their primary source of infor mation seems to have been one an other. They sensed that a chang was in the air, and began writing u a storm about it. After that, eac story lent credibility to the next.

However, if these writers ha talked to someone besides stockbro kers, security analysts, corporate of ficials and other writers—all o whom *want* to believe a change i occurring—they'd have discovere something fascinating.

It isn't happening.

The financial press had a rar lapse. It temporarily lost contac with reality. Were ordinary inves tors switching money furiously ou of oil and gas stocks and running t

Dr. Srully Blotnick is a practicing psychologist and author of Getting Rich Your Own Way *and* Winning: The Psychology of Successful Investing

brace their old, Dow industrial orites, as the stories suggested? rdly. But what tricked most long-ne analysts of the scene was that first part was indeed occurring, l on a massive scale at that: A de variety of institutional and in-idual investors were steadily liq-ating their holdings of oil stocks. was simply *assumed* by financial ters that there was a second part the process: out of one group, o another. As I said, it hasn't pened.

When the gold and gambling ck fads came and went, many eran market observers saw the nts for what they were: just an-er pair of speculative waves pass-by. But this time was different. new Administration was taking ce, and the nation's level of hope l optimism was running high. e result: Enormously more sig-icance was read into the popping the oil and gas bubble than it ually deserved.

Rather than labeling it correctly the passing of just another specu-ve wave like the gold and gam-ng crazes that preceded it, it was numentally misinterpreted as ng a return to old-fashioned reli-n and common sense. With ch ballyhoo about the virtues of d work and traditional values, were told that the nation had ained its bearings and was now the right road. The outgoing fad l incoming Administration were stakenly thought to be connected some way.

They weren't. Not in any way. In t, if you want to see what road estors are really on—at least the dly number I talk with—listen to epresentative conversation:

"What do you think of IBM now, rb?" I asked a 54-year-old engi-er, who'd bought it a year ago.

"I just sold it," he replied.

"How come?" I inquired. "I ought it was your favorite stock."

"Because I've been buying some nerican Exchange stocks, and ne new issues."

"At what prices?"

"Ten dollars, or thereabouts. me for $1. I'm going to make a ling. How much can I lose on a w issue for a dollar?"

Yes sirree, let's hear it for that ch heralded return to savings, in-stment and traditional values. ■

vations

flation? The Adminis-the developing crash tell us which.

DS SOON?

pling disincentives to working hard, and to saving and investing in the productive tools that make our efforts more efficient. Thus a cut in marginal tax rates would reduce inflation by increasing the *supply* of goods and services that our incomes could buy. That also is surely true as a broad general statement. The questions the bond market is asking are: How long will it take? And what happens to inflation in the meantime if the government continues to run a huge deficit because it is increasing its spending on armaments as much as it is cutting expenditures in other areas?

The Administration's answer is

be in balance, and inflation would not be a problem. Unfortunately, it *is* possible to borrow more than society is saving in real terms. It is possible because the central bank—in this country, the Fed—is committed to keeping the financial market liquid by buying debt securities from it.

Inflation has gotten so bad that people are willing to pay record rates of interest in order to borrow and buy real things as inflation hedges. Under these circumstances, the only way to stop the inflation cycle is for the central bank to break its commitment to keep the market liquid, and let it freeze up. Otherwise, the inflation will accelerate until people become unwilling to make loans on any terms at all, and the financial system collapses altogether. That happened in Central Europe in the early 1920s, and it is beginning to happen here with respect to long-term debt claims like mortgages.

At the moment, my working hypothesis is that this Administration will ultimately succeed in breaking the inflation. Its policymakers have shown themselves to be hardheaded

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as well. Two years ago, the elasticity bears on the supply and demand for oil were arguing that no matter how fast oil prices rose, there wouldn't be any big cutback in oil consumption, nor any major surge of new oil production in the non-OPEC countries. But in actual fact, the surge in oil prices caused a big shift in the supply and demand for oil. Demand for OPEC oil dropped sharply. The fancy theories of the expert elasticity bears were shot down in flames.

We're convinced that the same thing will happen to the bond market superbears, who say that the supply and demand for credit will not be sensitive to its price (the rate of interest). Their argument is that despite mortgage and long-term corporate bond yields in the 16%-to-17% range, there's not likely to be any significant slowing in the demand for credit or any significant increase in investment in long-term, fixed-income vehicles.

I think they are dead wrong. The

Richard B. Hoey is a vice president, economist and investment strategist at Bache Halsey Stuart Shields.

Psychology & MONEY & INVESTMENTS

A recent flood of art
investors now reflect
mood. But where's the

WHERE H
INVESTOR

By Srully Blotnick

Do me a favor, will you? If you run into any investors, as opposed to trigger-happy speculators, give them my name. I want to talk with them. Right now, my entire sample is full of restless and impatient gam-

ran percentage point, from 8.82% to 7.87%. That means that they expect a 600-to-900-basis-point pretax real yield on bonds purchased at today's prices. Those levels of real yields are unprecedented, and they aren't likely to last for long. It won't take long before borrowers outside the corporate sector postpone their borrowing and some investors decide to lengthen the maturity of their fixed-income portfolios. Inflation has peaked, so it shouldn't take much to trigger a major decline in interest rates.

It has been a rough decade for economists, whether they're elasticity bulls or elasticity bears. By now, they're even telling economist jokes around the campfires in the Amazon jungles.

With good reason. Take President Reagan's tax-cut proposals. The supply-side economists say they'll help solve all our economic problems; the Wall Street superbear economists say they'll be inflationary; the monetarist economists say tax cuts don't make any difference as long as the Federal Reserve sticks to its guns; and economists in the financial markets whisper that there might be a painful collision between

xcessively stimulative fiscal policy nd restrained monetary policy. As practicing economist, I can confiently assure you that each of these ontradictory views is half right.

The supply-siders are right in arguing that cutting marginal tax ates will help stimulate productive ctivity. They are brilliant in their erception that only the appeal of ig tax cuts will sustain the pressure n Congress to cut the growth of ederal spending.

But the supply-side economists ften ignore a few of today's unleasant realities. First, federal pending is still out of control, despite the best efforts of the new dministration. They are dead rong to underestimate the potenal damage from excessive budget eficits over the next year or two. igh deficits are powerful symols—to Wall Street and Main treet alike—that the federal government's promises to cut inflation an't be trusted.

The key to deciphering the conradictory and often incomprehenible babble of the economists is to ocus on the strength of incentives or people to save and invest rather than to borrow and spend. In this respect, there was a *missing link* in the Administration's program as proposed by President Reagan: There weren't enough direct incentives for saving. Federal deficits accompanied by an increased willingness of people to buy financial assets rather than borrow and spend aren't necessarily inflationary.

So watch carefully whether the final tax bill passed by Congress includes direct incentives for financial saving, such as widened eligibility for individual retirement accounts, reduction from 70% to 50% in the top tax rate on investment income and direct increases in the percent of long-term capital gains excluded from taxation. If they're included in the final bill, we can have a noninflationary tax cut.

We retain our personal conviction, outlined in last month's column, that the May 1981 peaks in *long-term* interest rates are likely to stand for at least the next century. Because we believe that a sustainable shift to more restrained fiscal and monetary policy is gradually occurring, our advice remains the same: Buy bonds. ■

Stability or hyperinflation? The Administration's reaction to the developing crash in house prices will tell us which.

BUY BONDS SOON?

By Ashby Bladen

I'm sorry that I can't answer all the letters this column attracts, but I do read them. The subject of this issue's column is, in fact, a response to a question asked by several readers. The question is: Why are President Reagan's advisers so confident that interest rates will be coming down when most of the competent observers of the financial markets are saying the exact opposite? Indeed, a rise would appear to be the logical consequence of the Administration's and the Fed's actions. The answer is that this Administration's policymakers put more emphasis on the *expectations* of financial market participants than most academic economists do; and in that they are surely right. If borrowers and lenders were given a convincing reason to believe that the inflation would be stopped in the reasonably foreseeable future, then interest rates would certainly decline substantially.

I emphasize *convincing*. The problem is that the Administration's arguments for its policies are ones that only the most devout disciples of economist Arthur Laffer find convincing. The theory is that marginal income tax rates have become so high that they constitute crippling disincentives to working hard, and to saving and investing in the productive tools that make our efforts more efficient. Thus a cut in marginal tax rates would reduce inflation by increasing the *supply* of goods and services that our incomes could buy. That also is surely true as a broad general statement. The questions the bond market is asking are: How long will it take? And what happens to inflation in the meantime if the government continues to run a huge deficit because it is increasing its spending on armaments as much as it is cutting expenditures in other areas?

The Administration's answer is that inflation is caused by an excessive rate of growth of the money supply. If the Fed will just refrain from "monetizing the debt," by creating the money to buy the bonds that finance the government's deficit, all will be well. In other words, there is still an easy and relatively painless way to squeeze inflation out of the system over a number of years. Since several administrations have told us the same thing during the last decade and a half, while the inflation, in fact, has accelerated, the bond market is understandably skeptical of this Administration's program.

My own theory about the way our financial system works is much more simple and straightforward than the convolutions of monetarism. My theory only seems difficult because we haven't yet got used to thinking about things that way. How can we, as individuals, get more purchasing power than we have earned as pay? By borrowing, of course. And society as a whole does the same. If one person could borrow only what other people had saved by consuming less than they produced, demand and supply would be in balance, and inflation would not be a problem. Unfortunately, it *is* possible to borrow more than society is saving in real terms. It is possible because the central bank—in this country, the Fed—is committed to keeping the financial market liquid by buying debt securities from it.

Inflation has gotten so bad that people are willing to pay record rates of interest in order to borrow and buy real things as inflation hedges. Under these circumstances, the only way to stop the inflation cycle is for the central bank to break its commitment to keep the market liquid, and let it freeze up. Otherwise, the inflation will accelerate until people become unwilling to make loans on any terms at all, and the financial system collapses altogether. That happened in Central Europe in the early 1920s, and it is beginning to happen here with respect to long-term debt claims like mortgages.

At the moment, my working hypothesis is that this Administration will ultimately succeed in breaking the inflation. Its policymakers have shown themselves to be hardheaded people who are not afraid to tackle the tough problems, like Social Security. However, there are many areas in which the Administration proposes but the Congress disposes. And it is not yet possible to be certain about the Administration's resolve because its theory does not inform it that the cost of breaking the inflation will be a general financial crisis, and specifically a crash in house prices.

During the last several months, the financing of house purchases has become dangerously unsound because of the virtual disappearance of long-term mortgages. When recent buyers discover that they owe more on their houses than they are worth in the market, they will demand that the government "do something." How this Administration responds will provide the clinching evidence that tells us whether we will regain price stability or slide further toward hyperinflation. If the Administration does withstand the pressure, then the next few months will be the best opportunity to buy long-term bonds since the British won the Battle of Waterloo in 1815. ■

Ashby Bladen is senior vice president-investments for the Guardian Life Insurance Co. of America, and author of How to Cope with the Developing Financial Crisis.

It is highly unlikely that the pound will return to the $2.40 level anytime soon.

THE POUND NOW FLOATS ON OIL

By Stanley W. Angrist

"The mighty shall be made low; the weak shall be raised up." Though people have cited that paraphrased biblical quotation for thousands of years, not many of us believe it. And yet yesterday's ragamuffins have a way of turning into today's Cinderellas. Just look at the dollar.

The dollar denigrators have argued that we were flooding the world with worthless greenbacks as we strove to keep up our oil purchases. They never counted on interest rates at unprecedented levels, or guessed that as oil became more expensive we would buy less, or figured on our success in selling our agricultural products abroad. An interesting example of a currency battle that has ensued with vigor over the last several months is the pound sterling against the dollar.

The dominant force pushing the dollar to new heights against all the world's currencies has been interest-rate differentials. The high interest rates in this country over the past year have attracted an enormous amount of "hot money," which always jumps to the currency with the highest rates.

During 1980 the pound remained in a steady uptrend against the dollar mostly due to Britain's current account surplus and high nominal interest rates. The current account balance benefited from the fact that the U.K. had become, for the first time, a small net exporter of oil. At the same time the economic recession had reduced the demand for imports. Interest rates were kept high due to the financing needs of the large government deficit.

By the end of 1980 the pound (basis the June contract) had reached $2.45—a value that had not been seen in years. Ultimately reality makes itself felt in all markets. In this case reality manifested itself in two forms: 1) Paul Volcker's aggressively tight monetary policy, which created high U.S. interest rates; and 2) the political pressure on Mrs. Thatcher to reduce interest rates.

This double whammy had the effect of kicking the props out from under the pound. High U.S. interest rates brought money to the U.S., while Britain cut the minimum lending rate (MLR) by 2% in November and again in March. Pressure on the Thatcher government continued as the U.K. faced new highs in unemployment rates. The pound dove deeper into the tank.

Last year traders focused on nominal interest rates rather than on real rates (*i.e.*, rates adjusted for inflation), ignoring the fact that for most of 1980 real interest rates in the U.K. were negative, while in the U.S. they were positive. It was only when U.K. rates fell relative to those in the U.S. that the pound declined significantly.

It should be understood that in short-term periods (six months or so), high inflation and currency strength are not necessarily incompatible. Both occurred in 1980 when the U.K. CPI reached 22% during the second quarter. The decline in the pound was delayed until the end of the year, and actually didn't get started until there was a definite easing in the price spiral.

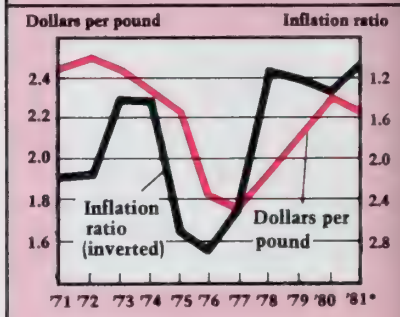
On an annual basis, the U.K.'s inflation rate has run consistently higher than the U.S.' over the past ten years. As the U.K.'s inflation rate (relative to the U.S.') rose, the pound fell. As the U.K. CPI started to show improvement relative to the U.S.' index, the pound began to come off its low.

Another prerequisite for reducing inflation is controlling the budget deficit. This has been one of the least successful areas for the Thatcher government. The 1980-81 government deficit turned out to be £4.5 billion greater than originally called for.

All things considered, it seems to me that it is highly unlikely the pound will return to the $2.40 level anytime soon. I would treat the pound as a trading affair. Anytime the September contract traded under $2.05 I would buy it; if and when it traded near $2.15 I would sell it, looking for a 10-cent profit ($2,500) on each trade. I would risk no more than 4 cents ($1,000) from my entry level. The margin on a long or short position is $1,500, while the round-turn commission is about $75. ■

Weighing the pound

The strength of the U.S. dollar relative to the British pound has correlated almost perfectly with relative inflation rates in the two countries over the past decade. But that's no guarantee for the future, especially in the short term. In any case, the improvement in the U.K./U.S. inflation ratio in the first quarter of 1981 should be viewed with caution.



* First quarter

Source: Shearson Loeb Rhoades, Inc.

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

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Why does Girard Bank's Don Carver have 100% turnover a year in his portfolio? It's safer, he says, than buying and holding.

The prudent gunslinger

The Money Men

By Allan Sloan

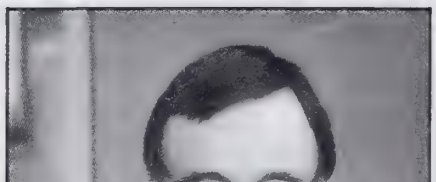
"WE DON'T FALL IN LOVE with things anymore," says Don Carver, equities strategist at Philadelphia's Girard Bank. "If you think of a trust department as buying and holding and collecting dividends," says Carver's boss, Dick Nenneman, "that's not our style."

Indeed, it's not. Burned in 1975 and 1976 when it got stuck holding nifty fifty growth stocks that never recovered from the 1973-74 market debacle, Girard is now an aggressive trader of the equity money it manages. Last year the once-staid Girard trust department's pooled equity fund for pension accounts had a turnover of more than 100% in its portfolio. That was triple the average turnover rate for the 250 bank trust department accounts tracked by Butcher & Singer, an analytical service that measures investment performance.

Whipping in and out of stocks to take advantage of daily fluctuations isn't everybody's cup of tea, but it seems to be working well for Girard. For the five years ended Mar. 31, Butcher & Singer says, Girard's annual return was 13.3% compounded—among the better performers in the country.

These days, when the stocks of even huge companies like AT&T and Mobil bounce around like corks, Carver feels it's not prudent to buy and hold. "Instead of being anguished over the volatility, we say, 'Here's a chance to make some money for our clients.' "

Carver is not some unseasoned young hot-shot playing with customers' money. He's 49, a Girard lifer with 27 years at the bank, the only



Don Carver of Philadelphia's Girard Bank
A prudent man of the Eighties.

place he's ever worked. He recalls the trauma that struck the trust department in 1975-76 when the stock market came back to life, but many of Girard's old, one-decision growth stocks—like IBM and Avon—didn't. "You can imagine there was panic over here," Carver recalls. "The Dow had taken off, and we hadn't."

After much pain, the Girard trust department decided that the old approach of buying blue-chip stocks and holding them forever wouldn't work during times of market uncertainty and high inflation. The result was the new policy.

"The major complaint about Girard in past years was that it would buy th right equity securities and ride ther up in the market. Then they woul watch them fall down again," says nonbank money manager. "Now the buy an equity and set a target price fo it . . . with the idea that when th stock has made its run, you've got a you're going to get out of it."

Carver says that Girard's goal wa to be in the top quarter of the nation money managers, a goal he seems t be meeting. Connecticut's INDAT Services ranks Girard in the top 25% and Butcher & Singer puts Girard i the top 30%.

The Girard trading strategy ha worked fine for its pension fund ac counts, but it's not really suitable fo most individual investors. An indivi ual pays high income taxes on shor term gains, and can be eaten alive b brokerage fees if he turns his accoun over too much.

Carver's investors, which are pen sion funds, pay no income tax an therefore don't have to worry abou the difference between long-term an short-term capital gains. So when comes to personal trust business— where the 60% tax exemption o long-term gains applies—Girard's ap proach is less trading-oriented. For in stance, Carver says, his fund trades i Hospital Corp. of America and Digit Equipment, but he wouldn't recom mend those low-dividend stocks fo individual accounts.

In January Carver started buyin General Motors, but not for the trad tional trust department reason: div dend yield. "We're not betting on th dividend's being increased anytim soon," he says. "Our plot is when GM gets into the 80s, we'll let the mark have our stock."

For Carver's strategy to work, h has to buy into industries that are ou of favor, then sell when other institu tions stampede in. "I don't conside myself an original thinker," he say "It's more like being a snoop, tryin to ferret out the trends before every one else gets there." Lately, Carve has been rotating into consume goods companies and interest-sens tive stocks. Late last year he starte rotating out of technology and elec tronics issues.

In December Carver began dump ing energy stocks, and he now regret not having sold them all. He wa burned on Archer-Daniels-Midlan too, but he has done rather well o Union Carbide. He started buying a 45 in November. At the time, he re calls, "Everyone said, 'Union Ca bide—yuk.' " But recently it wa holding at around 57. His big winne

as been R.H. Macy & Co., though he cently sold 5,000 shares at 55 and is ill sitting on 15,000 that he bought an average cost of 27.

Carver contends that his approach more defensive than offensive. Do- g things his way—selling 20% of a osition when it hits a new high, buying and selling to take a profit of 15% or 20%—makes it hard to rack up spectacular gains, but it also makes it hard to have spectacular losses. "Our primary goal is the preservation of capital," he says.

The Carver strategy, of course, wouldn't work this well if the markets weren't quite so jumpy and crazy, but for now we can watch Carver, the prudent man of the Eighties, as he turns his portfolio over at 100% a year. The fact that he feels he must do that to be prudent tells us a lot, none of it good, about what the market has come to. ■

uying stocks on the initial public offering may very well be an xciting game, but it is probably also a losing game.

A cautionary tale

Statistical Spotlight

By Richard Phalon

FEAST YOUR EYES ON THIS list of beauties, which FORBES published 12 years ago at the peak of hot-issue craze not unlike the one at has been racing through the mar- t for the last nine months or so. hat's your pleasure? Something real- sexy, like Four Seasons Nursing enters of America—a steal with an iginal offering price of $11 a share? mething macho, like Broadway e's at $10 a share? Something in a ell-shaped media concept, perhaps? hat about Downe Communications $3.33 a share?

It was all late 1960s chic, of course, d long on promise. Four Seasons as a cinch to cash in on the Medi- re boom. Broadway Joe's was going be the toast of, well, Broadway, anks to its promotional tie to New rk Jets quarterback Joe Namath. As Downe Communications, its in- me statement and balance sheet re among the best dressed in town. isn't that enough?

Emphatically not. As FORBES noted the time, investing in stock offer- gs for new businesses is under the st of circumstances a vital but high- k game—a game that tends to be- me speculative to the third power en the moon is full and manic investors begin baying.

There were 46 names on that 12-year-old FORBES list, all hot stocks of the day. Reality has dealt harshly with their romantic promises; fulfillment did not follow from fantasy. A half dozen of them filed for bankruptcy, while five others seem to be worth nothing. Another 22 bombed. A total of 33, or 72%, of the group are worth less now, a dozen years later, than they were in 1969. There were only

Whatever happened to Broadway Joe's?

Like 5 of the 46 new stock offerings from 1968-69 listed below, Broadway Joe's was seldom heard from again—except in the bankruptcy courts. When FORBES first ran this list July 15, 1969, we titled it "The Short End of the Deal." That turned out to be most appropriate. If you had invested $1,000 in each of the companies on the list, your $46,000 today would be worth only $45,000—a good number to remember now that the new-issue market is booming again.

Company principal business	Price: recent[1]	Price: July 1969[2]	% change in price	Current value of $1,000 investment
AIC Photo import & distrib photo equip	$ 7.38	$ 11.64	–37%	$ 634
American Medicorp[3] hospital managment	24.13	31.00	–19	809
Applied Logic[4] computer services	0.00	115.00	–100	0
ET Barwick Industries carpet manufacturer	0.13	14.50	–99	9
Broadway Joe's[4] restaurants	0.00	10.00	–100	0

[1]Recent stock price or recent value of initial investment. [2]Adjusted for subsequent stock splits and stock dividends. [3]Acquired. [4]Bankrupt. [5]Reorganized following bankruptcy. [6]Name changed. [7]Liquidated part of company; new company formed. [8]Sold business and assets; new company formed

four real winners, which managed to substantially outpace inflation—1 in every 12.

Suppose you had tried to play the game prudently and bought the whole list, putting $1,000 in each issue. How would you have fared? Badly. Your surviving 35 company stocks would have a combined value of $45,000. Adjusted for inflation, your $45,000 would have shrunk to $18,500. You would have been better off investing in medium-term U.S. Treasury bonds; at least the interest would have kept you in walking-around money.

An investment of $1,000 in Gamma Process, Nisarc Computers, Four Seasons, Broadway Joe's or any of seven other debutantes on the list is now worth exactly zero, a total wipeout. Four Seasons and Broadway Joe's are among six of the beauties that have been forced by fell circumstance and their own shortcomings to scurry to the bankruptcy courts for protection from a cold, cold world.

A number of other debs—Downe Communications, for one—found solace in mergers of convenience that kept investors just this side of total loss. Brilliant marriages helped two others (Lockwood and Daniel Construction) produce brilliant investment results, but their centrifugal pull—and that of the only other two real winners on the list—just wasn't enough to bring up the averages.

Has everybody lost money in the debs? Not on your tintype. New-issue booms are good to almost everyone on Wall Street: the underwriters that specialize in the stocks, the generally larger retail houses that share in the distribution; the promoters, of course; and those investors lucky enough to get in—and out—at the right time. Commissions on even reasonably solid companies with demonstrable track records these days run to about 7% of the offering price, and underwriters generally also benefit by buying inside stock at well below the offer.

Those wonderful folks at the now defunct Walston & Co. who gave us Four Seasons Nursing, for example, helped nurse the company along before it went public—a not unusual risk in the underwriting game and a traditional way of developing merchandise to take public. In exchange for the upfront financing, the firm got a lot of $3 stock it sold at $58 a share—not a bad reward, and a considerably more tangible one than any of the clients who might have thought Four Seasons was

Investing in new businesses is, under the best of circumstances, a vital but high-risk game. . . . There were 46 names on that 12-year-old FORBES list, all hot stocks of the day. Reality has dealt harshly with their romantic promises; fulfillment did not follow from fantasy.

a great hold at its boom price of 150 times earnings.

Ancient history? Maybe, but the parallels are uncanny if you've been looking at what's been happening to the 1980-81 crop of debutantes. Little numbers like Genentech, long on promise and short on earning power, have been knocking them dead (FORBES, *Nov. 10, 1980*). The speculative moon is full and underwriters are once again pitching new issues out the door. Through the first five months of this year, according to Joel S. Lawson III, managing partner of Howard & Company, a Philadelphia-based consulting firm, the Street moved about $1.5 billion in initial offerings through the hopper—slightly more than was logged in all of 198 At the current rate, says Lawso whose firm keeps tabs on the mark through its weekly, *Going Public*, t subscription books for 1981 will clo on more than $3 billion worth of ne offerings—the biggest figure ever, a some 10% more than the previo record of $2.7 billion set in 1972.

What's sparking the boom? Mo ominous parallels with the great bu ble of 1969. Interest rates are so hi that equity looks cheap to entrep neurs in search of capital. The psych logical atmosphere, too, seems ju right. There's been no crash in t market to frighten investors out their wits but not much action in l stocks to lure them in, either. So, th play the fringe: hot little stocks a new issues. It doesn't take big capi to move these and the game's exciti while it lasts.

In a game like this, though, you got to keep bringing fresh exciteme to market. Since there are relativ few players, you've got to keep th interest up.

Energy-related issues, for examp are beginning to cool off after a lo run. They've become harder to se and when they do sell, it is at gener ly softer multiples of seven or eig times forward earnings, say, than t

Whatever happened to Broadway Joe's?

Company principal business	Price recent[1]	Price July 1969[2]	% change in price	Current value of $1,000 investment
California Medical Centers nursing homes	$ 0.00	$11.00	–100%	$ 0
Carrols Development restaurant franchises	7.50	17.62	–57	426
Chicken Unlimited[5,6] fast food	0.38	15.40	–98	25
Commonwealth Industries[6] insurance holding co	18.00	1.73	940	10,405
Daniel Construction[3,6] construction	31.20	5.05	518	6,178
Data Products[6] computer equipment	31.25	12.75	145	2,451
Downe Communications[3] publishing	4.50	23.00	–80	196
Four Seasons Nurs Ctrs[5,6] health care services	0.00	65.75	–100	0
Gamma Process precision instruments	0.00	11.50	–100	0
General Educational Services[6] publishing	16.75	59.50	–72	282

[1]Recent stock price or recent value of initial investment. [2]Adjusted for subsequent stock splits and stock dividends. [3]Acquired. [4]Bankrupt. [5]Reorganized following bankruptcy. [6]Name changed. [7]Liquidated part of company; new company formed. [8]Sold business and assets; new company formed

en times earnings that was not un-
ommon as recently as several
nonths ago.

One major underwriter, for exam-
le, thinks consumer issues are the
ext wave. "Hambrecht & Quist is
ringing out a company called
)reyers Grand Ice Cream," he says,
and I've seen an awful lot of interest
n Liz Claiborne, Inc., a high-fashion
vomen's clothing manufacturer Mer-
ill Lynch is bringing out this fall."

The analogies with the 1969 and
972 new-issue booms—both of
vhich ended in collapse—can be
ushed too far. At this stage of the
ycle, quality still seems to be com-
aratively high. The players, says Phil
antamaria, head of syndication for
louston's Rotan Mosle Inc., "are defi-
itely looking at the character of the
arnings. They're most interested in
ne better-capitalized firms with
ack records.

"Of course," he continues, "with
ne good underwriting calendar now,
lot of substandard deals are being
one." John Muir & Co., for example,
nds to concentrate on the low-price,
peculative end of the new-issue spec-
um and has even floated an offering
n a Broadway show. Most of the
rm's issues, though, demonstrate at
ast some kind of earning power.
nly about 20% of the 19 stocks Muir
Co. has brought out so far this year
: underwrote a total of only three
mpanies in the same period last
ar) have been outright startups with
) track record at all. As the cycle
ears on, though, the quality of the
erchandise will begin to decline and
e number of secondary issues—in-
lers rushing to cash in on the
om—will rise.

Among the usual clutch of high-tech
mpanies on *Going Public*'s weekly
t, one already begins to see an infil-
ition of hosiery marketers, restau-
nt chains, financial consulting firms,
ancial public relations firms and
pricators of swimming pools. Joel
wson takes that infiltration "as
th good and a sign the market is
padening." A good sign for whom?
wson concedes that as "the market
padens, there's much more room for
o or three bad deals to come
rough."

Play the game if you will but re-
ember the score from last time:
ly 1 real winner in every 12; a 13%
nkruptcy rate; and an overall list
at made plenty of money for the
siders and early backers but nary a
thing for the public investor.

Company principal business	Price recent[1]	Price July 1969[2]	% change in price	Current value of $1,000 investment
General Health Services[3] health care services	$30.00	$27.80	8%	$1,079
Geri-Care Nursing Centers[6] health care services	2.75	18.00	–85	153
L.S. Good & Co[4] retail	0.00	3.02	–100	0
Gorins[6] retail	7.00	11.50	–39	609
Industrial Air Products[3] industrial gases	13.52	13.75	–2	983
Integrated Resources financial services	17.25	24.51	–30	704
Leisure Group recreational equip	0.19	28.50	–99	7
Lockwood[3] rubber products	26.00	6.00	333	4,332
Herman Marcus apparel	0.25	8.75	–97	29
Medic-Home Enterprises health care services	5.75	20.84	–72	276
National Beef Packing[3] meat packing	17.75	13.50	32	1,315
National Silver Industries housewares	6.00	12.00	–50	500
Nationwide Industries[3] leasing	0.60	9.00	–93	67
Nisarc Computers Ltd data processing	0.00	12.00	–100	0
Oceans General[3] real estate	16.13	8.00	102	2,016
Performance Systems[6] micrographics	5.38	65.00	–92	83
Professional Health Services health care services	0.00	14.63	–100	0
RH Medical Services[7] health care services	33.50	8.14	312	4,121
Robinson Furniture[6] retail furniture stores	0.00	11.50	–100	0
Saga Administrative[6] industrial services	18.50	21.00	–12	881
F&M Schaefer[3] brewing	7.40	43.25	–83	171
Scientific Components[3] computer services	0.30	12.25	–98	25
Skyline Oil[3] oil & gas	50.50	20.30	149	2,487
Stage Delicatessen[6] restaurants	0.25	102.50	–100	2
STP[3] oil additives	22.50	27.00	–17	833
Unibraze[8] brazing and welding alloys	8.13	6.50	25	1,251
United Convalescent Hospitals[3] health care services	25.00	41.35	–40	605
Universal Airlines airline	0.00	10.50	–100	0
Viatron Computer Systems[4] computer equipment	0.00	24.50	–100	0
Wiener Shoes[6] retail shoe stores	5.38	5.23	3	1,029
Wigwan Stores retail	1.00	11.00	–91	91

[1]Recent stock price or recent value of initial investment. [2]Adjusted for subsequent stock splits and stock dividends. [3]Acquired. [4]Bankrupt. [5]Reorganized following bankruptcy. [6]Name changed. [7]Liquidated part of company; new company formed. [8]Sold business and assets; new company formed.

Statistical Spotlight

Japanese stocks are rallying on the Tokyo exchange and—through ADRs—in the U.S.

Catching a ride

By Paul Bornstein

WHILE THE U.S. STOCK MARKET was backing and filling, the Tokyo Stock Market has been forging ahead. Since the beginning of the year the Nikkei Dow Jones average has advanced from 7063 to 7529—a 6.5% gain, while the U.S. Dow Jones industrial average gained only 3% and the S&P's 500 decreased 1%.

Americans can catch a bit of a ride on the Japanese market via ADRs—American Depositary Receipts—the equivalent of one or more shares in a foreign company. ADRs are traded just like regular stock certificates and free investors from dealing with foreign custodians, transfers and taxes. Some of the largest Japanese companies have several billion yen-denominated shares outstanding. Sony, for example, has 2.2 billion Japanese shares. Ten Japanese Sony shares equal one Sony ADR.

The better-known issues are listed below. This small group has performed better than the Tokyo market, gaining an average of 26% since th beginning of the year.

There are some big winners—lik Honda Motor, up 85%, which repor ed record earnings of $1.10 per AD in the latest quarter, up 57% from la year; Matsushita Electric, up almo 86%; Hitachi, 78%; and Sony, 60%.

What's the outlook from here o "ADRs will never again be offered bargain basement prices. But there no reason they won't make gre gains in the future," notes Paul Aro executive vice president of Daiwa S curities America. Aron is especial bullish on electronics, particularly companies like Hitachi and Sony good consumer growth markets suc as videocassette recorders. Nichol Reitenbach of N. Reitenbach & Co. also optimistic. "Maybe trade restri tions will have a psychological impa on Japanese auto stocks," he say "but the outlook for the rest of th ADR stocks is good—in electronic brewing, pharmaceuticals and tract manufacture."

Through ADRs, U.S. ownership Japanese companies is steadily i creasing. "In just the past months," says Robert Renck, vi president of Oppenheimer & C "U.S. ownership in some Japane stocks, such as Sony, has gone fro 7% to about 38%." Honda is anoth well-known Japanese company which as much as a third of the sto is now owned by Americans.

Made in Japan

Americans have been investing in major Japanese companies at record rates. Since December 1980 ADRs (American Depositary Receipts) of the companies listed below have appreciated an average of 26%. Honda and Matsushita have almost doubled. Note the low yields: The emphasis here is on growth, not payouts.

Company/principal business	Revenues latest fiscal yr* (millions)	Recent ADR price	Price change since 1/2/81	Latest 12-month earnings per ADR	Price/earnings ratio	Dividend	Yield	Book value per ADR*
Canon/camera, copiers	$ 2,047	32¼	46.6%	$2.05	16	$0.22	0.7%	$ 10.62
Daiei/retail	5,594	5½	– 17.0	0.38	14	0.04	0.7	3.89
Fuji Photo Film/photo products	2,271	76⅝	73.7	5.23	15	0.28	0.4	32.30
Hitachi Ltd/electrical equip, electronics	13,388	57⅝	78.0	4.24	14	0.55	1.0	29.73
Honda Motor/motorcycles, autos	7,980	47	85.2	6.06	8	0.44	0.9	21.85
Japan Air Lines/airline	2,975	103⅞	– 6.4	NA	NA	1.50	1.4	NA
Kirin Brewery/brewery	1,969	19⅛	– 7.8	1.44	13	0.28	1.5	11.20
Kubota/agricultural equip	2,260	33	2.3	1.29	28	0.60	1.8	14.19
Kyoto Ceramic/ceramic products	459	42½	36.0	2.12	20	0.26	0.6	9.10
Matsushita Elec Ind/electronics	13,690	78¼	85.8	4.63	17	0.40	0.5	37.52
Mitsui & Co/trading company	42,808	27½	–9.5	2.84	10	0.56	2.0	18.00
Nippon Electric/electronics	3,452	87⅛	28.1	2.29	38	0.62	0.7	14.57
Nissan Motor/automotive	13,230	36⅝	5.4	2.76	13	0.52	1.4	19.89 E
Pioneer Electronic/consumer electronics	1,366	34⅞	48.4	1.96	18	0.30	0.9	12.93
Sanyo Electric/appliances	4,368	55	40.1	3.60	15	0.53	1.0	24.76
Shiseido/cosmetics	1,364	37½	– 11.2	2.37	16	0.37	1.0	29.33
Sony/consumer electronics	4,231	24¾	59.7	1.51	16	0.13	0.5	7.15
TDK Electronics/audio tapes	994	47¾	52.2	1.93	25	0.17	0.4	9.40
Tokio Marine & Fire/insurance	1,897	171	7.7	9.04	19	1.02	0.6	142.87
Toyota Motor/automotive	15,184	48	31.5	3.97	12	0.53	1.1	27.09

*Conversion rate at fiscal year-end. E: Estimate. NA: Not available. *Sources: Nomura Securities; Standard & Poor's;* The Value Line Investment Survey; FORBE

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Items from past issues of FORBES

ixty years ago in FORBES

We are all agreed that business needs very legitimate encouragement. Ve're all agreed that if the 4,000,000 my of unemployed increases much ore, untoward developments must e expected, since strong-armed, ound-limbed workmen will not qui-ly submit to slow starvation for emselves and their wives and chil-en. Even the most correct theory ometimes has to be modified to meet xtraordinary conditions. Conditions oday are extraordinary and, unless ggressive remedial measures are tak-n, they will become more extraordi-ary still."

Although you have seen little about in the newspapers, Germany is nding an increasing volume of oods to this country for sale at prices dically below those demanded for omestic products. The newspapers ave featured a few spectacular in-ances of under-bidding of American, ritish and other competitors for rge foreign contracts; but this under-dding is of much less moment than e under-selling which is developing side our own borders. The truth is at Germany can today produce actically all of her export lines of erchandise at very much lower cost an is possible here. Why? Because of e drop in the value of the mark to ½ cents as contrasted with a prewar lue of almost 24 cents; and the in-ustriousness of her workers."

ifty years ago

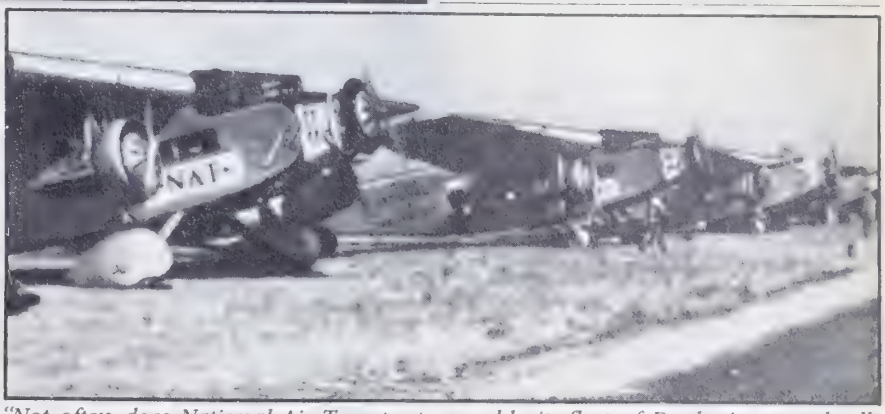
An age-old dream of the engineer is ow on the way to complete realiza-on. Already we have tens of thou-nds of miles of pipelines carrying l, gasoline and natural gas over long stances. During the last five years, hile production of crude oil in-eased more than 30%, the transpor-tion of it by railroads decreased %. The reduction in oil tonnage rried by the roads has amounted to early 6,000,000 tons. On top of this mes the development of a huge etwork of pipelines to carry natural s, nature's most perfect fuel, from stant wells to the nation's great dustrial centers. Pipe is being used sizes that a few years ago were npractical.

"Last year more than 15,000 miles of gas lines were added at a cost of approximately $400,000,000. This year the expenditures for new lines may run close to $600,000,000. . . ."

Through the long, grim, steadily worsening nightmare of the Great Depression, a few bright spots stood out. One was aviation, whose expansion through the 1930s explains the triumphant tone of the accompanying ad for Ford's trimotor monoplane.

Another was the pipeline industry in general and natural gas pipelines in particular. Up until then, the natural gas that accompanies in at least some measure virtually every oil find had been regarded as more nuisance than resource: It was generally flared—burned off—or at best sold for a few cents per thousand cubic feet to be burned sootily against a channel of steel in making the type of carbon black known as channel black. Much of the first natural gas to be sold came from older fields like those of West Virginia. It was generally shipped under comparatively low pressures through 12-inch to 18-inch pipelines. Today's gas, largely from the great fields of Louisiana, Oklahoma and Texas, moves at high pressures through 36-inch and larger lines in volumes vastly greater than those earlier small-bore carriers could handle.

"In Europe Professor Piccard and another Swiss scientist ascended nearly 10 miles in a balloon specially built for the experiment and took various tests and samples in the stratosphere at the highest altitude man has ever reached. Scientific results of the expedition have not yet been published, but they are sure to be interesting if not extremely valuable. The unofficial altitude attained is placed at around 52,000 feet, or nearly 10 miles."



"Not often does National Air Transport assemble its fleet of Ford tri-motored, all-metal planes, because, like a railroad, the 'rolling stock' must keep moving. Every hour day and night an N.A.T. plane is humming through the skies on its scheduled way, carrying cargo of passengers, mail or express. The fleet of fourteen-passenger transports pictured here is about to take its place with the famous fliers of United Air Lines, of which National Air Transport is one of the most active divisions."

Twenty-five years ago

"Once spurned as 'too cyclical' for the ordinary investor, the great steel industry in recent years has found increasing favor even with many relatively conservative money managers. But has the historically unstable industry really changed its spots? Last month Calvin Bullock, Ltd., one of Wall Street's leading mutual fund management groups, had some very interesting things to say on this subject. Bullock's advice to investors: The position of the steel stocks may not be quite so rosy as it appears on the surface. 'The steel industry,' says Bullock's monthly publication *Perspective*, 'is not a vigorous growth industry in which it is worthwhile for the investor . . . to pay a high price for current earnings in hopes of future rewards.' . . .

"What the Bullock report is saying is that investors should not be blinded by the current prosperity of the steel industry to the point where they forget some very serious long-range problems that face the makers of this most essential of all metals. What are these problems? One of the worst, they feel, is the danger of price-cutting later on in the decade. . . . Then there is the matter of dividends. The Bullock report, in line with much current Wall Street thinking, feels that steel dividend payouts will be strictly limited in years ahead by the tremendous need [for] cash to pay for expansion."

Thoughts on the Business of Life

Perhaps host and guest is really the happiest relation for father and son.
EVELYN WAUGH

Man is not on the earth solely for his own happiness. He is there to realize great things for humanity.
VINCENT VAN GOGH

A great man is made up of qualities that meet or make great occasions.
JAMES RUSSELL LOWELL

If there's no one else better than yourself, you haven't looked hard for someone else . . . and haven't looked hard at yourself.
ROBERT HALF

I have never met a man so ignorant that I couldn't learn something from him.
GALILEO GALILEI

Of all men's miseries, the bitterest is this, to know so much and have control over nothing.
HERODOTUS

There is no greater immorality than to occupy a place you can't fill.
NAPOLEON BONAPARTE

The growth of the human mind is still high adventure, in many ways the highest adventure on earth.
NORMAN COUSINS

Immense power is acquired by assuring yourself in your secret reveries that you were born to control affairs.
ANDREW CARNEGIE

The large-caliber executive welcomes suggestions, the small-caliber executive resents them, imagining that he knows it all and that it is presumption for anyone to offer him advice. To win promotion, be unselfish, receptive, responsive, always rating first the well-being of the company. To become big, play the game in a big way.
B.C. FORBES

He who trusts men will make fewer mistakes.
CAMILLO DI CAVOUR

The No. 1 job of an effective manager is to lead, to develop and build his people.
WHITT N. SCHULTZ

The greatest of all weaknesses is the excessive dread of appearing weak.
JACQUES BOSSUET

Dignity does not consist in possessing honors, but in deserving them.
ARISTOTLE

The best reformers the world has ever seen are those who commence on themselves.
GEORGE BERNARD SHAW

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Don't give your children fatherly advice—let them get old unassisted.
WILLIAM FEATHER

Unselfishness is letting other people's lives alone.
OSCAR WILDE

By dint of railing at idiots, we run the risk of becoming idiots ourselves.
GUSTAVE FLAUBERT

It is well to open one's mind but only as a preliminary to closing it . . . for the supreme act of judgment and selection.
IRVING BABBITT

Ambition and suspicion always go together.
GEORG C. LICHTENBERG

A Text . . .

Boast not against the branches. But if thou boast, thou bearest not the root, but the root thee.
ROMANS 11:18

Sent in by Joseph W. Tollison, Augusta, Ga. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Look for the good things, not the faults. It takes a good deal bigger-sized brain to find out what is not wrong with people and things, than to find out what is wrong.
R.L. SHARPE

He who rules must humor fully as much as he commands.
GEORGE ELIOT